



Annual Audit Letter 2016/17

London Borough of Bromley

—

October 2017



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This report is addressed to 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. Public Sector Audit Appointments 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 Public Sector Audit Appointment's website (www.psa.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 (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, SW 1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at London Borough of Bromley in relation to the 2016/17 audit year.

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

<p>VFM conclusion</p>	<p>We issued a qualified 'except for' conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 27 September 2017.</p> <p>During 2015/16 the Council received a report from Ofsted rating its Children's Services as 'inadequate'. The Ofsted report raised concerns that strategic leaders did not have a comprehensive understanding of the services being provided, and noted that there had been a significant deterioration in the quality of services since 2010, with children being left in negative home situations for too long because of a poor understanding of the risk identification and reduction process. During 2016/17 Ofsted issued two further monitoring reports that identified areas where some improvements had occurred, and some areas where it considered that progress had not met the expectations stated within the local authority's action plan. The Council has appointed a new management team and improved the timeliness of several services. However, the majority of these actions were made late in 2016/17 and were not in place for the entirety of the year.</p>
<p>VFM risk areas</p>	<p>We undertook a risk assessment as part of our planning work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant matters:</p> <ul style="list-style-type: none"> — 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 a number of ongoing funding pressures — Findings from regulatory bodies - In June 2016 Ofsted published a report grading the Authority's children's services as 'inadequate'. The Authority has made a number of personnel changes following the inspection and has put in place an improvement plan which is being monitored by Senior Management. The Authority is working with the appointed Commissioner to improve services. This resulted in an 'except for' qualified VFM conclusion in 2015/16. — Overspends in Children's Services - Following the June 2016 Ofsted report, there have been a number of overspends within Children's Services. This could indicate that resources within this area are not being deployed in a sustainable manner.
<p>Audit opinion</p>	<p>We issued an unqualified opinion on the Authority's financial statements on 27 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.</p>
<p>Financial statements audit</p>	<p>There were no significant audit adjustments identified as part of our work. We received complete draft accounts in June 2017 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the code.</p> <p>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.</p>

Section one

Headlines (cont)

We have not yet issued our audit certificate for the 2016/17 year as there are objections outstanding as at the date of this report.

Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Pension fund audit	There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
High priority recommendations	We raised one high priority recommendation as a result of our 2016/17 audit work. This is detailed in Appendix 1 together with the action plan agreed by management. This recommendation related to the requirement for the Authority to use a separate pension fund bank account in order to maintain compliance with legislation. This recommendation was not accepted by the Authority, although it is noted that this will be continually reviewed.
Certificate	We have not yet issued the certificate which confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice. This is because there are objections outstanding which are currently being considered. This means that we are not yet able to issue our certificate.
Audit fee	Our fee for 2016/17 was £119,076, excluding VAT. This is in line with the fee highlighted within our audit plan agreed by the Audit Sub-Committee in February 2017 and the scale fee set by PSAA Ltd. Further detail is contained in Appendix 3.

Appendix 1: Key issues and recommendations

We have raised one high priority recommendation as part of our work, detailed here.

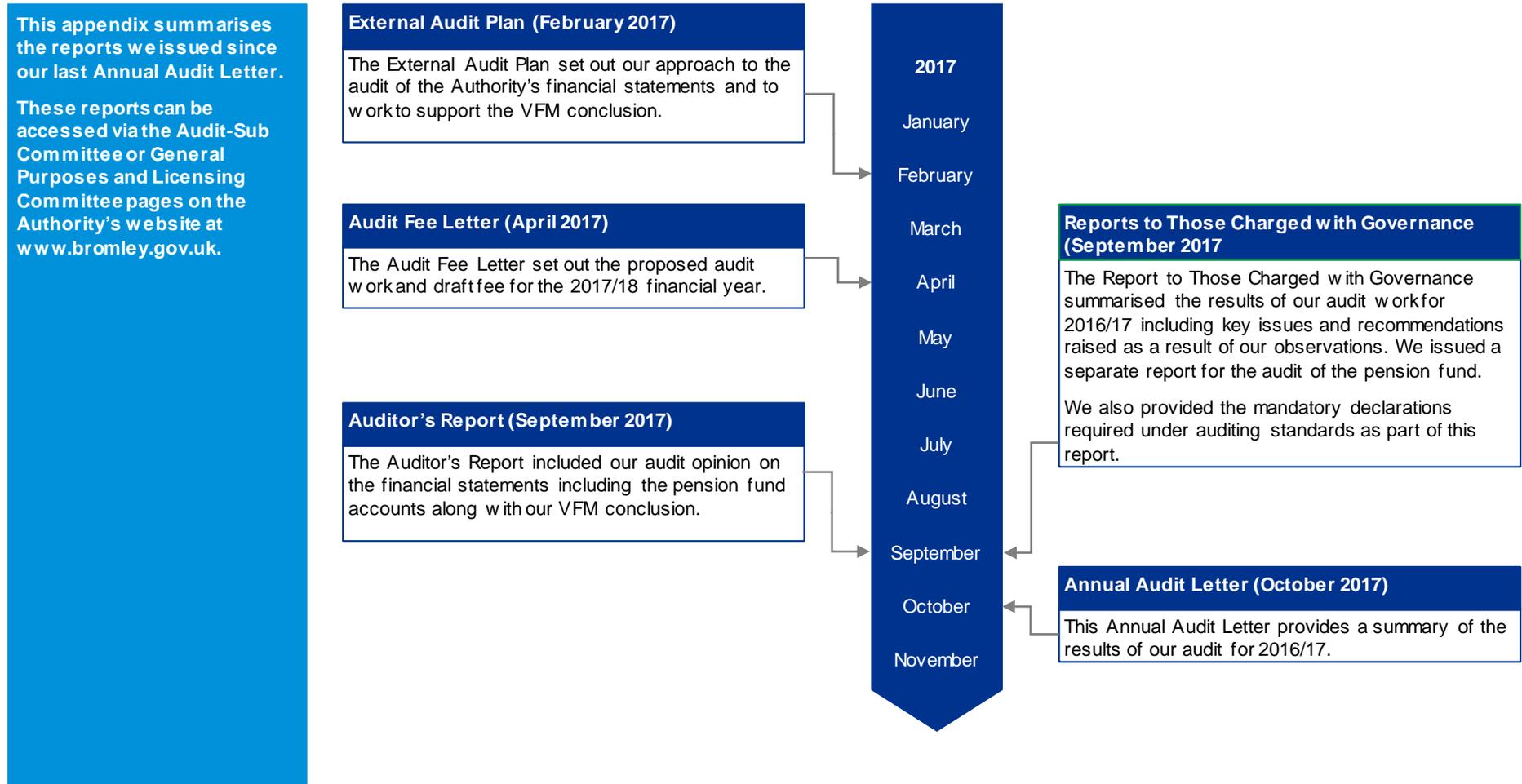
No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Pension Fund Bank Account</p> <p>The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require that all pension schemes have their own bank account.</p> <p>Although a separate bank 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.</p> <p>Recommendation</p> <p>We recommend that the pension fund bank account is put into use in order that the pension fund is fully compliant with all regulations.</p>	<p>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.</p> <p>Responsible Officer: Principal Accountant</p>

Follow up of previous recommendations

As part of our audit work we followed up on the Authority's progress against previous audit recommendations. The Authority has partially implemented one of the three prior year recommendations with the other two still not implemented.

- Use of the pension fund bank account: This was not agreed by the authority in the previous year, and has been re-raised as a high priority recommendation as part of our work in 2016/17 (re-iterated above)
- Segregation of Duties Journal Entries: Management believes its compensation controls are adequate and do not intend on implementing this recommendation.
- Fixed Asset Reconciliation: Management was able to partially implement this recommendation.

Appendix 2: Summary of reports issued



Appendix 3: Audit fees

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

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

External audit

Our final fee for the 2016/17 audit London Borough of Bromley was £119,076, which is in line with the planned fee.

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

Our fees are still subject to final determination by Public Sector Audit Appointments.

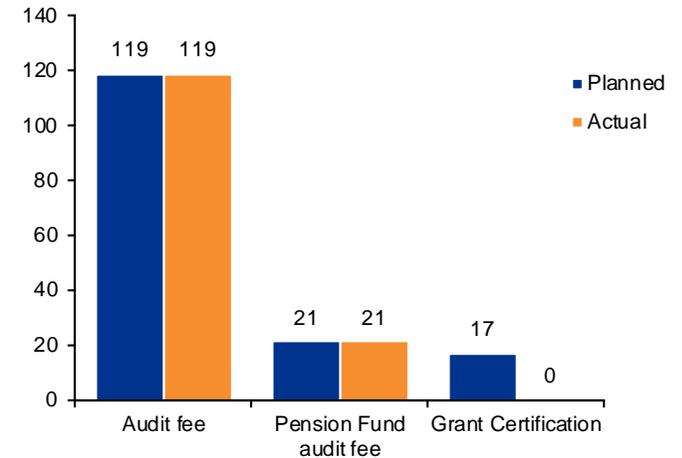
Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in November 2017 but is planned at £17,476.

Other services

We did not charge any additional fees for other services.

External audit fees 2016/17 (£'000)





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