



Annual Audit Letter 2017/18

London Borough of Bromley

—

August 2018

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The contacts at KPMG in connection with this report are:

Phil Johnstone
Director

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

Hannah Andrews
Senior Manager

Tel: 020 7694 8868
hannah.andrews@kpmg.co.uk

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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.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 (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.

<p>This Annual Audit Letter summarises the outcome from our audit work at London Borough of Bromley in relation to the 2017/18 audit year, which is the final year that KPMG is the auditor of the Authority and its pension fund.</p> <p>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>	<p>Audit opinion</p> <p>Financial statements audit</p> <p>Other information accompanying the financial statements</p>	<p>We issued an unqualified opinion on the Authority's financial statements on 26 July 2018. 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 include those of the pension fund.</p> <p>Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's accounts was set at £9 million which equates to around 1.5% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £9 million which is approximately 0.99% of gross assets.</p> <p>We report to the General Purposes and Licensing Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.45 million for the Authority (and £0.45 million for the Pension Fund).</p> <p>We have identified one audit adjustment with a total value of £1.36 million relating to the reclassification of a property from assets held for sale to surplus assets. This adjustment does not result in a change in the reported deficit on provision of services or a net change in the general fund balance. We were provided with a good first draft of the financial statements.</p> <p>Our audit work was designed to specifically address the following significant risks:</p> <ul style="list-style-type: none"> — Management Override of Controls – Our audit methodology incorporates the risk of management override as a default significant risk. No issues were identified; — Valuation of PPE – The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. No issues were identified; — Pension Liabilities – Valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. No issues were identified; — Faster Close – The timetable available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in previous years. No issues were identified. <p>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.</p>
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Pension Fund audit	<p>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.</p> <p>Our audit work was designed to specifically address the following significant risks relating to the Pension Fund:</p> <ul style="list-style-type: none"> — Valuation of hard to price investments – Hard to price investments do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. No issues were identified.
Whole of Government Accounts	<p>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.</p>
Value for Money conclusion	<p>We issued a qualified 'except for' conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 26 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources except for the area of children's services where the Authority received an 'inadequate' Ofsted inspection in June 2016 and these findings have not yet been fully remediated. This is an ongoing issue from previous years.</p> <p>To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>
Value for Money risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> — Delivery of Budgets – Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government, whilst having to maintain services to local residents. The Authority delivered an underspend despite additional cost pressures in Children's Services; — Findings from regulatory bodies – The June 2016 Ofsted report graded the Authority's children's services as 'inadequate'. Recent reports by Ofsted have shown that the Authority is making steady progress against recommendations that have been made previously by the regulator.
High priority recommendations	<p>We raised one high priority recommendations as a result of our 2017-18 work.</p> <ul style="list-style-type: none"> — Pension Fund bank 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. <p>This is detailed in Appendix 1.</p>

Headlines

Certificate	The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries relating to 2016/17 and 2017/18. 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.
Audit fee	Our fee for 2017-18 was £119,076, excluding VAT (2016/17: £119,076). Our fee for the audit of the Pension Fund was £21,000 excluding VAT (2016/17: £21,000). The fee is consistent with the planned fees for the year. No additional work has been carried out. Further detail is contained in Appendix 3.
Exercising of audit powers	<p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p> <p>In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act.</p>

Appendix 1: Key issues and recommendations

One high priority recommendation remains outstanding relating to prior years. This has been reiterated here.

No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Pension Fund bank account (re-raised from 2015/16 and 2016/17)</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>Not yet implemented</p> <p>This is being explored as part of the re-tendering of the Exchequer Services contract and will be included as one of the options for additional services to be added into the contract.</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. One high priority recommendation is not yet implemented (reiterated above). The remaining medium priority recommendation raised in previous years (relating to journals authorisation) is partially implemented.

Appendix 2: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Sub-Committee and General Purposes and Licensing Committee pages on the Authority's website at www.bromley.gov.uk.

External Audit Plan (February 2018)

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Auditor's Report (July 2018)

The Auditor's Report included our audit opinion on the financial statements including the pension fund accounts along with our VFM conclusion.

Annual Audit Letter (August 2018)

This Annual Audit Letter provides a summary of the results of our audit for 2017/18.

2018

January

February

March

April

May

June

July

August

September

October

November

Certification of Grants and Returns (January 2018)

This letter summarised the outcome of our certification work on the Authority's 2016-17 grants and returns.

Report to Those Charged with Governance (July 2018)

The Report to Those Charged with Governance summarised the results of our audit work for 2017/18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Appendix 3: Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2017/18 planned audit fee.

External audit

Our final fee for the 2017/18 audit of the Authority was £119,076, which is in line with the planned fee. Fees have not yet been agreed with the Authority for the work on the elector objections relating to 2016/17 and 2017/18.

Our final fee for the 2017/18 audit of the Pension Fund was in line with the planned fee of £21,000.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2019.

Other services

We did not charge any additional fees for other services.



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