



Annual Audit Letter 2016/17

**London Borough of Hammersmith and
Fulham**

—
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 Andrew Sayers the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, 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, SW1P 3HZ.

Section one

Headlines

This Annual Audit Letter summarises the outcome from our audit work at London Borough of Hammersmith and Fulham 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.

VFM conclusion	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 29 September 2017. 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.</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>
VFM areas of focus	<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 focused on the following key matters:</p> <ul style="list-style-type: none"> — <i>Procurement and Contract Management</i>: specifically focusing on the procurement and management of contracts. Our review identified no matters which were brought to the attention of the Audit, Pensions and Standards Committee; — <i>Medium Term Financial Planning</i>: we reviewed five cost saving measures and considered how the council measures their performance. We raised one low level recommendation on this issue, focusing on how the achievement of cost saving plans is reported; and — <i>Working with Partners: Managed Services</i>: we reviewed the management of the Managed Services Contract. We also visited the Managed Services centre and completed additional testing on controls. We did not identify any matters to draw to the attention of the Audit, Pensions and Standards Committee.
Audit opinion	<p>We issued an unqualified opinion on the Authority's financial statements on 29th 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.</p>
Financial statements audit	<p>During our audit, we identified four audit differences, all of which were adjusted by the Authority. The largest of these adjustments was to increase both expenditure and income by £3.2 million which equates to 0.5% of Cost of Services Expenditure and 0.7% of Cost of Services Income. Other adjustments related to Senior Officer Remuneration, Exit Costs and Leases.</p> <p>There was one corrected audit difference from the Pension Fund relating to the levelling of Pension Fund assets.</p> <p>We raised five recommendations, three of which were medium priority and two of which were low priority. Whilst following up our recommendations from the previous year, we noted that the two high priority recommendations had not been fully implemented, although progress had been made towards both. Further detail on these are within appendix one.</p>

Section one

Headlines (cont)

We have issued our certificate to confirm the completion of our audit responsibilities for the 2016/17 audit year.

Annual Governance Statement	We reviewed the Annual Governance Statement and Narrative Report that accompanies the financial statements to consider whether it was materially consistency with the audited accounts. We concluded that they were consistent with our understanding and did not identify any issues.
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>During this audit, we have raised one audit adjustment in relation to the levelling of investments. We also found that the recommendation regarding to the cleanse of data inherited from Capita had not been fully implemented at the audit date, although progress was ongoing towards the achievement of this recommendation.</p>
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	<p>We raised no new high priority recommendations as a result of our 2016/17 audit work, although we noted that the two high priority recommendations from the 15/16 audit had not been fully implemented:</p> <ul style="list-style-type: none"> — Transactions processed by the service organisation: whilst many improvements had been made to the service provided by the Managed Service provider, both at the Authority and at the Managed Service provider, there were a number of control deficiencies which continued, most notably that there is no approval of journals processed at the Managed Service Provider. — Pension Fund Membership Data: following the transfer of data from Capita to Surrey County Council, there were a number of errors in the data which the pension fund administrator was working to solve and to ensure a live interface between the systems at Surrey County Council and at BT. This process was ongoing as at the audit date. <p>We will again follow up on these recommendations as part of our 17/18 audit work</p>
Certificate	We issued our certificate on 30 th September 2017. The certificate 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.
Audit fee	Our fee for the 2016/17 main authority audit was £163,950, excluding VAT. The fee for the pension fund audit was £21,000, excluding VAT. Further detail is contained in Appendix 3.

Appendix 1: Key issues and recommendations

As part of our audit we have raised no high priority recommendations and three medium level recommendations.

We note that the Authority has made progress towards recommendations raised in the prior year audit, although actions were ongoing for the two high priority recommendations raised.

Recommendations Raised

As part of our audit we have not raised any high priority recommendations, although we have raised three medium recommendations.

No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Approval of Exit Payments During our testing, we identified two individuals for which the documentation of the adjudication panel approving their redundancy could not be located. Moreover, receiving redundancy letters for a number of individuals proved difficult as there was no central co-ordination and storage of key documents.</p> <p>There is a risk currently that the Authority is unable to demonstrate that the controls surrounding the approval of exit payments are operating effectively.</p> <p>Recommendation: A central storage of important documents relating to exit packages and other sensitive matters should be developed and the importance of using this central storage should be reaffirmed to key officers. The monitoring officer could act in an oversight role for this.</p>	<p>Agreed We will review our arrangements for filing and storing important documents relating to exit packages and other sensitive matters. We will ensure that the correct procedure is reaffirmed to key officers.</p> <p>Officer: Interim Director for HR By when: December 2017</p>
2	<p>Accruals identification/calculation During our testing of creditor accruals, we identified two accruals which had been made even though the expense had not yet been incurred by the Authority. The values in question were not material to the financial statements</p> <p>Moreover, the backing for accruals submitted by the services was not always accompanied by detailed supporting evidence of working, making obtaining audit evidence together with the internal scrutiny of the corporate finance team, challenging.</p> <p>Recommendation: Detailed guidance should be issued to the services regarding what expenditure should be accrued and the level of evidence required to support these accruals.</p>	<p>Agreed Existing guidance for raising accruals will be reviewed, updated as necessary and re-issued to the services. This guidance will specify the level of evidence required to support accruals. Corporate Finance will monitor compliance by the services with this guidance.</p> <p>Officer: Strategic Finance Director By when: December 2017</p>

Appendix 1: Key issues and recommendations (cont)

As part of our audit we have raised no high priority recommendations and three medium level recommendations.

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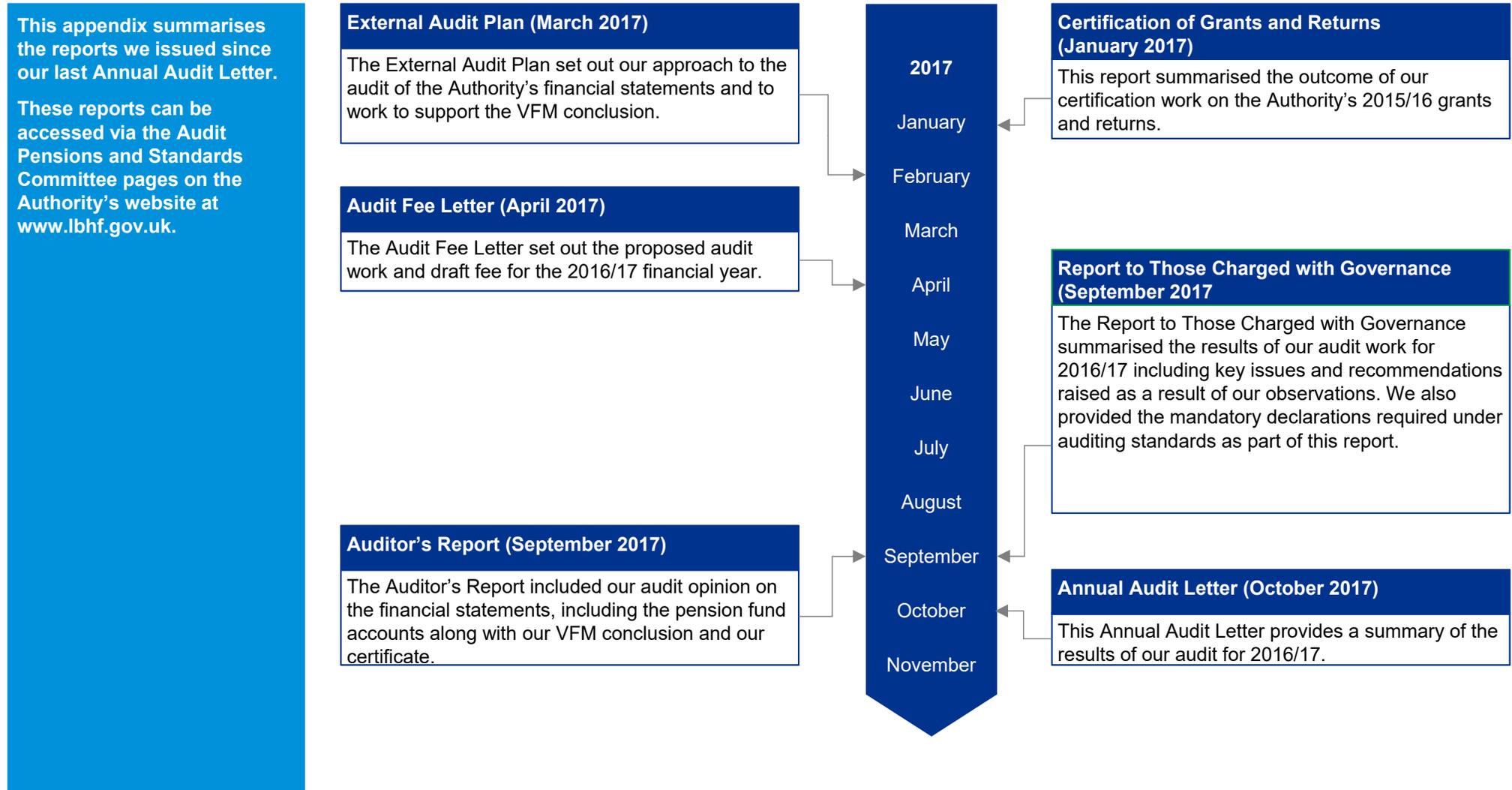
Recommendations Raised (cont.)

No.	Issue and recommendation	Management response / responsible officer / due date
3	<p>IT Control Deficiencies- Leavers and User Access</p> <p>During our audit of the IT environment at BT Managed Services, we identified a large number of leavers who had not been removed from the IT system promptly after the leaving date. Similarly, the majority of new users, who are not on temporary contracts, to the system are entered with an expiry date of 2099, rather than a fixed end date, meaning many user access rights will continue indefinitely.</p> <p>Whilst further testing identified that none of these individuals accessed the ledger inappropriately after their leaving date, there is a risk to the Authority that leavers can inappropriately access the ledger after they have left the Authority. The lack of end date means that there is no fixed process whereby BT is encouraged to monitor user access regularly.</p> <p>Recommendation: The importance of removing leavers from the IT system should be reaffirmed to BT Managed Services and a routine check is developed to identify any leavers who might still inappropriately have access to Agresso. New users should be given an expiry date after 12 months so that user access does not continue indefinitely where this is not appropriate.</p>	<p>Agreed</p> <p>The shortfall in required practices will be notified to BT and supported by the issue of the appropriate contract warning notices. The Council will work with BT to increase the performance monitoring in this area, and will introduce checks and controls to confirm resolution by BT.</p> <p>Officer: Interim Director for HR By when: March 2018</p>

Follow up of previous recommendations

As part of our audit work we followed up on the Authority's progress against previous audit recommendations. We are pleased to report that actions had started against all recommendations raised, although the recommendations for the two high priority recommendations, the action was ongoing.

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 of the London Borough of Hammersmith and Fulham was £163,950, 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.

Certification of grants and returns

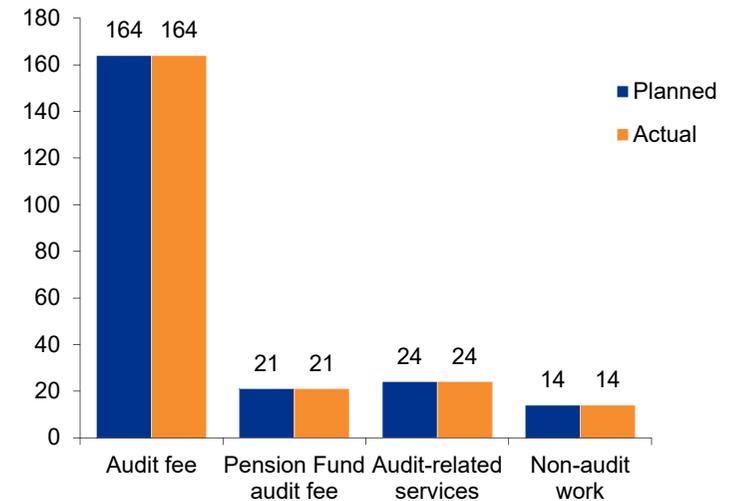
Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2018.

Other services

During this financial year, we agreed with management a visit to the managed service provider to gain additional assurance over transactions and controls managed there. The fee for this additional work was £7,000 excluding VAT.

We will complete the audit of the Teachers' Pensions Grant Claim and Pooling Capital Receipts return, which are outside the PSAA Certification Regime. Work is ongoing in relation to these. We would anticipate a final fee of £7,000, excluding VAT, in relation to these (£7,000 in 2015/16).

External audit fees 2016/17 (£'000)





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