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## AGENDA FOR THE AUDIT COMMITTEE AND AUDIT COMMITTEE (ADVISORY)

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Members of the Audit Committee and Audit Committee (Advisory) are summoned to a meeting, which will be held in Committee Room 4, Town Hall, Upper Street, N1 2UD on, **24 March 2015 at 7.30 pm.**

**John Lynch**  
**Head of Democratic Services**

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Despatched : 16 March 2015

### Membership

Councillor Richard Greening (Chair)  
Councillor Olly Parker (Vice-Chair)  
Councillor Raphael Andrews  
Councillor Dave Poyser  
David Bennett

### Substitute Members

Councillor Clare Jeapes  
Councillor Paul Smith  
Councillor Jilani Chowdhury  
Councillor Claudia Webbe

**Quorum: is 3 Councillors**



**A. Formal Matters**

**Page**

1. Apologies for Absence
2. Declaration of substitute members
3. Declarations of interest

If you have a **Disclosable Pecuniary Interest\*** in an item of business:

- if it is not yet on the council's register, you **must** declare both the existence and details of it at the start of the meeting or when it becomes apparent;
- you may **choose** to declare a Disclosable Pecuniary Interest that is already in the register in the interests of openness and transparency.

In both the above cases, you **must** leave the room without participating in discussion of the item.

If you have a **personal** interest in an item of business **and** you intend to speak or vote on the item you **must** declare both the existence and details of it at the start of the meeting or when it becomes apparent but you **may** participate in the discussion and vote on the item.

**\*(a) Employment, etc** - Any employment, office, trade, profession or vocation carried on for profit or gain.

**(b) Sponsorship** - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.

**(c) Contracts** - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.

**(d) Land** - Any beneficial interest in land which is within the council's area.

**(e) Licences**- Any licence to occupy land in the council's area for a month or longer.

**(f) Corporate tenancies** - Any tenancy between the council and a body in which you or your partner have a beneficial interest.

**(g) Securities** - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

This applies to **all** members present at the meeting.

4. Minutes of previous meeting 1 - 4

**B. Items for Decision - Audit (Advisory) Committee**

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1. KPMG Reports 5 - 36
  - A. External Audit Plan 2014/15
  - B. Certification of Claims and Returns

<b>C.</b>	<b>Items for Decision - Audit Committee</b>	<b>Page</b>
1.	Audit Plan 2015/16	37 - 52
2.	Establishing an Islington Pension Board	53 - 64

**D. Urgent non-exempt items**

Any non-exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

**E. Exclusion of press and public**

To consider whether, in view of the nature of the remaining item on the agenda, it is likely to involve the disclosure of exempt or confidential information within the terms of the Access to Information procedure rules in the Constitution and, if so, whether to exclude the press and public during discussion thereof.

**F. Confidential/exempt items**

**G. Urgent exempt items (if any)**

Any exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

The next meeting of the Audit Committee and Audit Committee (Advisory) will be on 4 June 2015

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London Borough of Islington

## **Audit Committee and Audit Committee (Advisory) - 29 January 2015**

Minutes of the meeting of the Audit Committee and Audit Committee (Advisory) held at Committee Room 4, Town Hall, Upper Street, N1 2UD on 29 January 2015 at 7.30 pm.

<b>Present:</b>	<b>Councillors:</b>	Richard Greening (Chair), Olly Parker (Vice-Chair), Dave Poyser and Paul Smith.
<b>Also Present</b>	<b>Councillors:</b>	Andy Hull and Satnam Gill
<b>Also Present:</b>	<b>Independent member:</b>	David Bennett

### **Councillor Richard Greening in the Chair**

**20**      **APOLOGIES FOR ABSENCE (Item A1)**  
Apologies received from Councillor Andrews.

**21**      **DECLARATION OF SUBSTITUTE MEMBERS (Item A2)**  
Councillor Paul Smith substituted for Councillor Raphael Andrews.

**22**      **DECLARATIONS OF INTEREST (Item A3)**  
None.

**23**      **MINUTES OF PREVIOUS MEETING (Item A4)**  
**RESOLVED**  
That the minutes of the meeting of the Audit Committee and the Audit Committee (Advisory) held on the 29 September 2014 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

It was noted that the Local Government Association had not provided any further information on pension provision for elected members, however, professional advice had been sought and the Audit Committee would be updated once further details were available.

**24**      **RISK MANAGEMENT UPDATE (Item B1)**  
It was reported that there would be a risk management update provided to the Audit Committee every six months outlining the status of key risks and steps taken to enhance the council's maturity risk. In addition it was stated that a full benchmarking exercise would be undertaken after two years.

It was noted that there was a priority to procure temporary accommodation within London where possible in regard to the homelessness risk. The risk report was comprehensive and the need to ensure that the risk management framework was embedded was stressed by the Committee. It was noted that outputs from the implementation of the new risk approach would link in with the Annual Audit Plan for 2015/16.

The Audit Committee noted the risks expressed regarding the IT arrangements in the housing repair service and that these were within the scope of the work undertaken by the internal audit team as part of their planned work.

**RESOLVED**

That the report be noted and the risk management approach agreed.

**25** **INTERNAL AUDIT INTERIM REPORT (Item B2)**

The Committee noted that the I Pay system was the application that allowed residents to pay bills online. The audit of the parking e-permits was to tie in with the implementation date. Members would have the details as soon as available.

**RESOLVED**

That the report be noted.

**26** **COUNCIL TAXBASE AND NATIONAL NON DOMESTIC RATES 2015/16 (Item C1)**

The Committee noted the late despatch of Appendix D due to the late receipt of the form from the Government.

It was reported that there was an increase in the council tax base but no change to the collection rate with uncertainty still following the previous changes in the benefits regime. The Committee noted that the biggest risk to the business rates estimates were appeals as these were handled by the valuation office, were not within the control of the authority and were very difficult to accurately forecast.

**RESOLVED** that

- a) it be agreed that the Council Tax base for the whole area for 2015-16 (or until rescinded) shall be 72,001.07 Band D equivalent properties after adjusting for non-collection.
- b) it be agreed that the Council Tax base for meeting the special expenses issued by the Lloyd Square Garden Committee for 2015-16 (or until rescinded) shall be 44.34 Band D equivalent properties after adjusting for non-collection.
- c) the council tax forecast for 2014-15 be noted.
- d) the completed NNDR1 Form for submission to the Secretary of State be agreed.
- e) the NNDR forecast for 2014-15 be noted.

**27** **ANNUAL TREASURY AND INVESTMENT STRATEGY (Item C2)**

The Committee noted that the interest rate levels were constantly monitored in conjunction with Arlingclose, the Council's consultants, to determine the most appropriate borrowing options.

**RESOLVED**

That the Annual Treasury Management and Investment Strategy 2015-16 be noted.

**28** **CHANGE OF POLLING PLACES - Highbury East, Barnsbury and Holloway (Item C3)**

The Audit Committee noted that discussions were currently taking place with New North Academy in St Peter's ward in order for this venue to be used as a polling place. It was expected that this matter would be resolved shortly. The Audit Committee expressed a preference for New North Academy over Cumming Community Centre.

The Audit Committee noted the concern expressed by a member of the public regarding the use of a church as a polling place.

**RESOLVED that**

- a) The changes to the polling places in Highbury East, Barnsbury and Holloway wards as set out in the report be agreed.
- b) The comments regarding Highbury West and St Peter's ward as set out in the report at paragraphs 3.9 and 3.10 be noted.

c) The designation of Popham and Cumming Community Centre or New North Academy as the polling place for St Peter's ward be delegated to the Chief Executive (as Acting Returning Officer), in consultation with the Chair.

**29 UPDATE ON IMPACT OF INDIVIDUAL ELECTORAL REGISTRATION (Item C4)**

The Audit Committee noted that residents could now register to vote online in three minutes. It was also noted that potential electors had been found through the use of data held by other departments. Members considered that all departments should be strongly encouraged to provide data to the electoral services team.

Information regarding the number of residents who had been prevented from registering as they had no national insurance number was not available for members but would be forwarded. The Committee noted that if a national insurance number was not available and the reason supplied, other evidence could be provided.

**RESOLVED that**

- a) the report be noted;
- b) figures regarding the numbers of residents prevented from registering due to the lack of national insurance information be supplied to members;
- c) all departments provide data information to the electoral services team to help maximise registration.

**30 REVISED DISCIPLINARY PROCEDURE (Item C5)**

The Committee noted the deletion of 3.3 (a) in the report following discussions with the Trade Unions.

**RESOLVED that**

- a) the Disciplinary Procedure in Appendix 1 (with effect for all disciplinary processes commenced on or after 1 February 2015) be adopted;
- b) that Assistant Chief Executive, Governance HR, be authorised to make minor or consequential changes to the procedure from time to time following discussion with the Trade Unions.

**31 MARKET SUPPLEMENTS POLICY (Item C6)**

It was expected that the market supplement would reduce the need for agency staff. This would be monitored by Internal Audit and would be reviewed at the Policy and Performance Scrutiny Committee.

**RESOLVED that**

- a) the draft policy as detailed in Appendix 1 of the report, subject to full Council agreeing the necessary change to the Pay Policy Statement, be adopted with effect from 1 March 2015.
- b) that the Assistant Chief Executive, Governance HR, be authorised to make minor or consequential changes to the policy from time to time following discussions with the Trade Unions.
- c) That the monitoring of agency staff spend be added to the Internal Audit workplan for 2015/16.

**32 WORKPLACE RESOLUTION POLICY (Item C7)**

The Committee noted that the pilot would be extended to a number of teams throughout the council rather than one single department. The new process would be measured for success against the previous grievance procedure and reported to members through the Annual Equalities report.

**RESOLVED that**

## **Audit Committee and Audit Committee (Advisory) - 29 January 2015**

- a) the Workplace Resolution Procedure in Appendix 1 be adopted with effect from 1 February 2015 (or such later date as shall be determined by the Assistant Chief Executive, Governance and HR, to ensure the necessary training to support the new procedure has taken place), for the purposes of a pilot.
- b) the procedure be adopted for the whole workforce following the pilot, if, in the view of the Assistant Chief Executive, Governance HR, the pilot has been successful;
- c) the Assistant Chief Executive, Governance HR, be authorised to make minor or consequential changes to the procedure from time to time following discussion with the Trade Unions.

### **33 ESTABLISHING AN ISLINGTON PENSION BOARD (Item C8)**

Councillor Olly Parker took the Chair for this item as Councillor Richard Greening was the Chair of the Pension Sub-Committee.

The Audit Committee noted that the regulations had been published on the 28 January. It was expected that the new Pension Board and the Sub-Committee would work closely together but not duplicate their work.

#### **RESOLVED that**

- a) the constitution for the Islington Pension Board as detailed in Appendix 1 of the report be agreed;
- b) the Assistant Chief Executive, Governance HR, be authorised to make minor or consequential changes to the Islington Pension Board Constitution to reflect the requirements of the Local Government Scheme (amendment) Regulations.

### **34 EXCLUSION OF THE PRESS AND PUBLIC (Item E)**

#### **RESOLVED that**

The press and public be excluded from the meeting for the following item as it contained exempt information as specified in paragraphs 1 and 3, Schedule 12A of the Local Government Act 1972.

### **35 PUBLIC HEALTH STAFF PAYMENTS (Item F1)**

#### **RESOLVED that**

The redundancy payments set out in paragraph 4.1 of the report be agreed.

The meeting ended at 9.15 pm

**CHAIR**



Report of: Corporate Director of Finance

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	24 March 2015		All

## 1. Synopsis

- 1.1 KPMG has produced an external audit plan (2014/15) and a certification of claims and returns (2013/14) for the March 2015 meeting of the Audit Committee.

## 2. Recommendations

- 2.1 To note the attached reports from KPMG.

## 3. Background

- 3.1 KPMG provides various reports to the Audit Committee throughout the year. The following reports are included on the agenda for this meeting:

- A. External Audit Plan - 2014/15
- B. Certification of Claims and Returns – Annual Report 2013/14

## 4. Implications

- 4.1 **Financial Implications:**  
These are contained within the body of the report.

**4.2 Legal Implications:**

There are no legal implications.

**4.3 Environmental Implications:**

There are no direct environmental implications.

**4.4 Equalities Impact Assessment:**

An equality impact assessment is not relevant as this is a report from an external body.

**5. Conclusion and reasons for recommendations:**

5.1 The Committee is asked to note the contents of this report.

**Appendices:**

- External Audit Plan - 2013/14

**Background papers:** (available online or on request)

- None

Final Report Clearance:

**Signed by:**



Corporate Director of Finance and Resources

9 March 2015

Date

**Received by:**

Head of Democratic Services

Date

Report Author: Alan Layton, Director of Financial Management

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*cutting through complexity*

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# External Audit Plan 2014/15

London Borough of  
Islington and Islington  
Pension Fund

February 2015

The contacts at KPMG in connection with this report are:

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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. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission’s website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Philip Johnstone, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG’s work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission’s complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 1<sup>st</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.

This document describes how we will deliver our audit work for London Borough of Islington and the London Borough of Islington Pension Fund.

### Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in April 2014. It describes how we will deliver our financial statements audit work for London Borough of Islington ('the Authority') and London Borough of Islington Pension Fund ('the Pension Fund'). It also sets out our approach to value for money (VFM) work for 2014/15

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary

### Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission will close at 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

The Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

### Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 provides further detail on the audit risks for the pension fund
- Section 6 explains our approach to VFM arrangements work.
- Section 7 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

### Acknowledgements

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

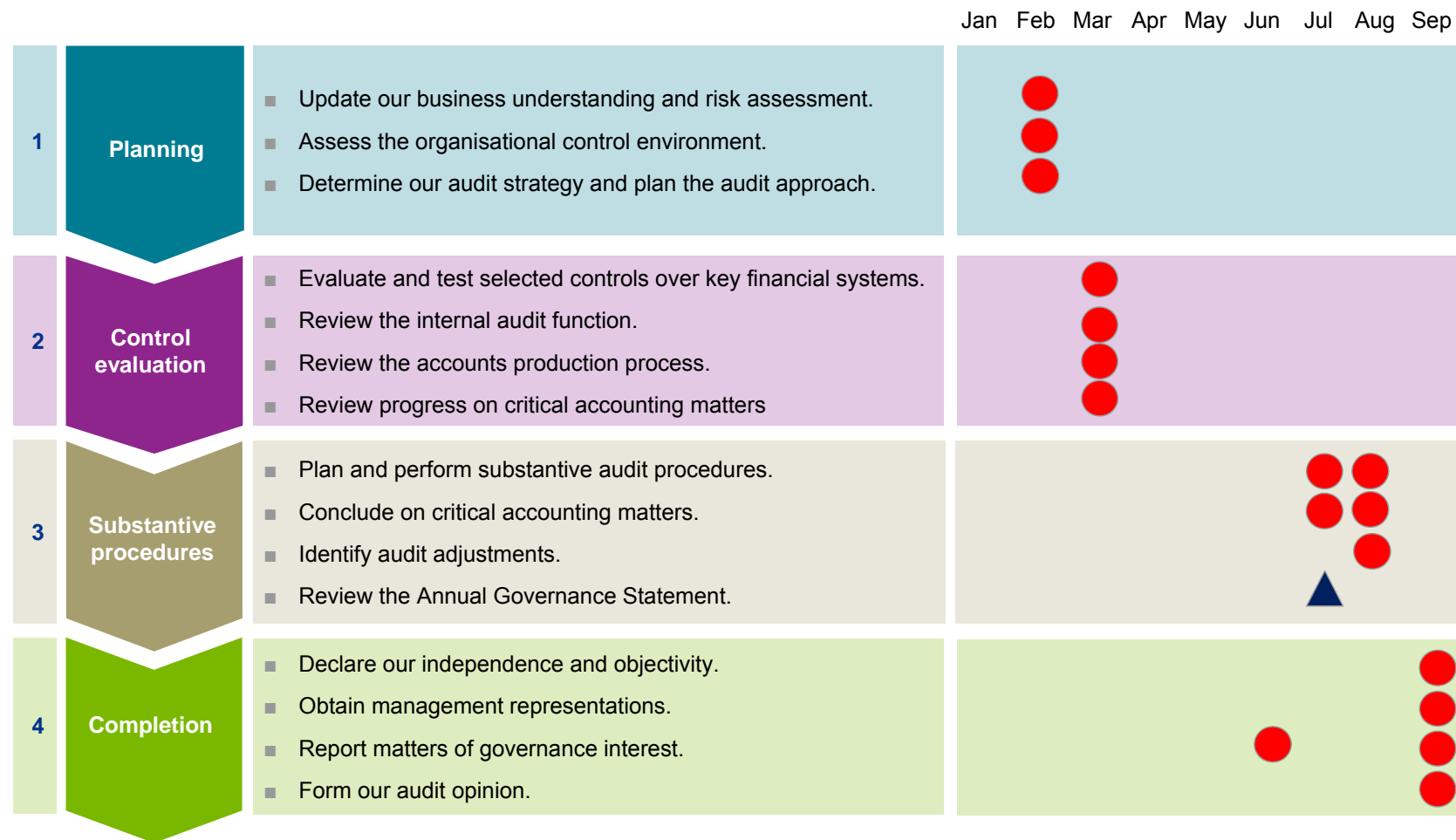
<b>Audit approach</b>	<p>Our overall audit approach remains similar to last year with no fundamental changes. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Director of Finance.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
<b>Key financial statements audit risks</b>	<p>We have completed our initial risk assessment for the financial statements audit.</p>
<b>Key financial statements audit risks for the Pension Fund</b>	<p>Our initial risk assessment for the Pension Fund's financial statements audit has identified one significant risk this year. This relates to changes made to the Local Government Pension Scheme from 1 April 2014 and how the Authority calculates pension entitlement.</p>
<b>VFM audit approach</b>	<p>We have completed our initial risk assessment for the VFM conclusion and have not identified any significant risks at this stage.</p>
<b>Audit team, deliverables, timeline and fees</b>	<p>As in 2013/14, our team is led Philip Johnstone and supported by Paul Cuttle</p> <p>Our main year end audit is currently planned to commence in July/August 2015. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2014/15 audit is £270,440. This has increased by £2,600 from the position set out in our <i>Audit Fee Letter 2014-15</i> due to the Audit Commission increasing the fee scale to take account of the additional work required on National Non Domestic Rates.</p>

We undertake our work on your financial statements in four key stages during 2015:

- **Planning** (February).
- **Control Evaluation** (March to April).
- **Substantive Procedures** (July to August).
- **Completion** (September).

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We have summarised the four key stages of our financial statements audit process for you below.



Key: ● Authority and Pension Fund

▲ Authority only

During February and March 2015 we complete our planning work.

We assess the key risks affecting the Authority’s financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

Our planning work takes place in February and March 2015. This involves the following aspects:

- |          |   |
|----------|---|
| Planning | <ul style="list-style-type: none"> <li>■ Update our business understanding and risk assessment including fraud risk.</li> <li>■ Assess the organisational control environment.</li> <li>■ Determine our audit strategy and plan the audit approach.</li> <li>■ Issue our <i>Accounts Audit Protocol</i>.</li> </ul> |
|----------|---|

### Business understanding and risk assessment

We update our understanding of the Authority’s operations and identify any areas that will require particular attention during our audit of the Authority’s financial statements.

We identify the key risks including risk of fraud affecting the Authority’s financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority’s responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

### Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

### Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) ‘*Audit materiality*’, we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 6 of this document.



When we determine our audit strategy we set a monetary materiality level for planning purposes.

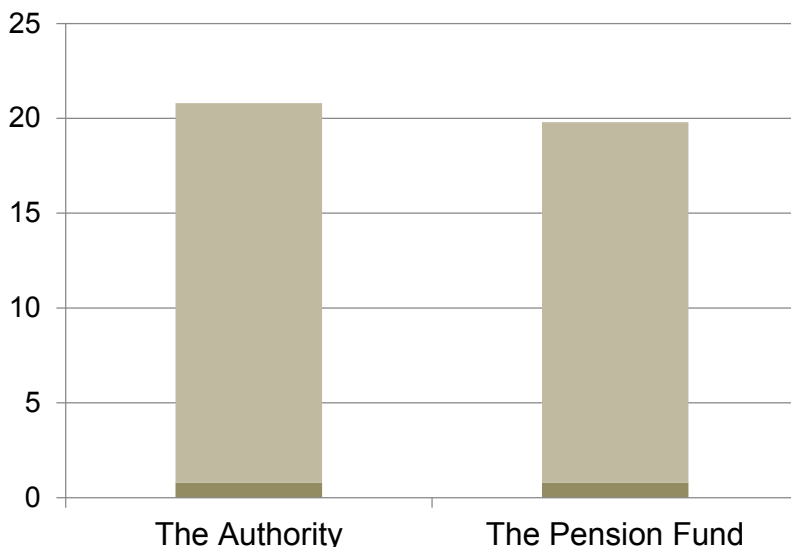
For 2014/15 we have set this at £20 million for the Authority, and £19 million for the Pension Fund based on the prior year financial statements.

We will report all audit differences over £1 million for the Authority and differences over £0.9 million for the Pension Fund to the Audit 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 planning purposes has been set at £20 million for the Authority’s standalone accounts, which equates to just under 2 percent of gross expenditure. For the Pension Fund, the corresponding figure is £19 million. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Audit 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 Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK&I) 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 (UK&I), ‘Evaluation of misstatements identified during the audit’, 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 £1 million for the Authority and £0.9 million for the Pension Fund.

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

During March 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15.

We work with your finance team and the pensions team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

Our on site interim visit will be completed during March 2015. During this time we will complete work in the following areas:

### Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

### Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

### Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process.

### Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee in June 2015.

### Accounts production process

We raised one recommendations in our *ISA 260 Report 2013/14* relating to the evidence to support the valuation of Council dwellings. We did not raise any recommendations in relation the Pension Fund.

We will assess the Authority's progress in addressing our recommendation and in preparing for the closedown and accounts preparation.

During July and August 2015 we will be on site for our substantive work. We will conduct our work on the Pension Fund at the same time.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* for both the Authority and Pension Fund audits to the Audit Committee in September 2015.

Our final accounts visit on site has been provisionally scheduled for July and August 2015 for the Authority and Pension Fund. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

### Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

### Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with management, prior to reporting to the Audit Committee.

### Audit adjustments

During our on site work, we will meet with the Chief Accountant and his team on a weekly basis to discuss progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. 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.

### Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in September 2015.

### Pension Fund Annual Report

We also issue an opinion on the consistency of the Pension Fund's accounts included in the *Pension Fund Annual Report* with those included in the Statement of Accounts. We intend to issue this opinion at the same time as our opinion on the accounts.

In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

### Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified audit approach for 2014/15 have not yet been confirmed.

### Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

### Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 17.

### Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement lead and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

### Confirmation statement

We confirm that as of **9 March 2015** in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

**In this section we set out our assessment of the significant risks or other key areas of audit focus of the Authority's financial statements for 2014/15.**

**For each key risk/significant risk area we have outlined the impact on our audit plan.**

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Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- 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. In line with our methodology, we carry 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.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Appendix 3 covers more details on our assessment of fraud risk.

We have not identified any additional significant risks relating to the audit of Authority's financial statements however we will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

In this section we set out our assessment of the significant risks to the audit of the Pension Fund's financial statements for 2014/15.

For each key risk area we have outlined the impact on our audit plan.


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As for the Authority's financial statements, professional standards require us to consider two standard risks for all Pension Funds. To recap, these are:

- 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. In line with our methodology, we carry 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.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for pension funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The table below sets out the significant risks we have identified through our planning work that are specific to the audit of the Pension Fund's financial statements for 2014/15.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key audit risks	Impact on audit
	<p><b>Risk</b> From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 14/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.</p> <p><b>Our audit work</b> We will review the controls and processes that the Pension Fund have put in place to accurately capture the data required by LGPS 2014. Our work will also focus on testing that the system has been set up to accurately calculate future benefit entitlement.</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

### Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing <b>financial resilience</b> .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> <li>■ manage effectively financial risks and opportunities; and</li> <li>■ secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial governance</li> <li>■ Financial planning</li> <li>■ Financial control</li> </ul>
The organisation has proper arrangements for challenging how it <b>secures economy, efficiency and effectiveness</b> .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> <li>■ achieving cost reductions; and</li> <li>■ improving efficiency and productivity.</li> </ul>	<ul style="list-style-type: none"> <li>■ Prioritising resources</li> <li>■ Improving efficiency and productivity</li> </ul>

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

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### Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
<b>VFM audit risk assessment</b>	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>information from the Audit Commission's VFM profile tool ;</li> <li>evidence gained from previous audit work, including the response to that work; and</li> <li>the work of other inspectorates and review agencies.</li> </ul>



Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

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VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ considering the results of work by the Authority, inspectorates and other review agencies; and</li> <li>■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have completed our initial risk assessment and have not identified any risks to our VFM conclusion at this stage. We will update our assessment at year end.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> <li>■ local savings review guides based on selected previous Audit Commission national studies; and</li> <li>■ update briefings for previous Audit Commission studies.</li> </ul> <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>We have completed our initial VFM risk assessment and have not identified any key issues. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Your audit team has been drawn from our specialist public sector assurance department.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.

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Philip Johnstone  
**Director**

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee and Chief Executive.”



Paul Cuttle  
**Senior Manager**

“I provide quality assurance for the audit work and specifically any technical accounting and risk areas.

I will work closely with Philip to ensure we add value.

I will liaise with the Director of Finance Management and Chief Accountant.”

At the end of each stage of our audit we issue certain deliverables, including reports, statements and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report as appropriate with the Authority's officers prior to publication.

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Deliverable	Purpose	Committee dates
<b>Planning</b>		
<b>External Audit Plan</b>	<ul style="list-style-type: none"> <li>■ Outlines our audit approach.</li> <li>■ Identifies areas of audit focus and planned procedures.</li> </ul>	<b>March 2015</b>
<b>Control evaluation and Substantive procedures</b>		
<b>Report to Those Charged with Governance (ISA 260 Report)</b>	<ul style="list-style-type: none"> <li>■ Details control and process issues.</li> <li>■ Details the resolution of key audit issues.</li> <li>■ Communicates adjusted and unadjusted audit differences.</li> <li>■ Highlights performance improvement recommendations identified during our audit.</li> <li>■ Comments on the Authority's value for money arrangements.</li> </ul>	<b>September 2015</b>
<b>Completion</b>		
<b>Auditor's Report</b>	<ul style="list-style-type: none"> <li>■ Provides an opinion on the Authority's and Pension Fund accounts (including the Annual Governance Statement).</li> <li>■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>	<b>September 2015</b>
<b>Whole of Government Accounts</b>	<ul style="list-style-type: none"> <li>■ Provide our assurance statement on the Authority's WGA pack submission.</li> </ul>	<b>September 2015</b>
<b>Pension Fund Annual Report</b>	<ul style="list-style-type: none"> <li>■ We provide an opinion on the consistency of the Pension Fund annual report with the Pension Fund accounts,</li> </ul>	<b>September 2015</b>
<b>Annual Audit Letter</b>	<ul style="list-style-type: none"> <li>■ Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>	<b>January 2016</b>

We will be in continuous dialogue with you throughout the audit.

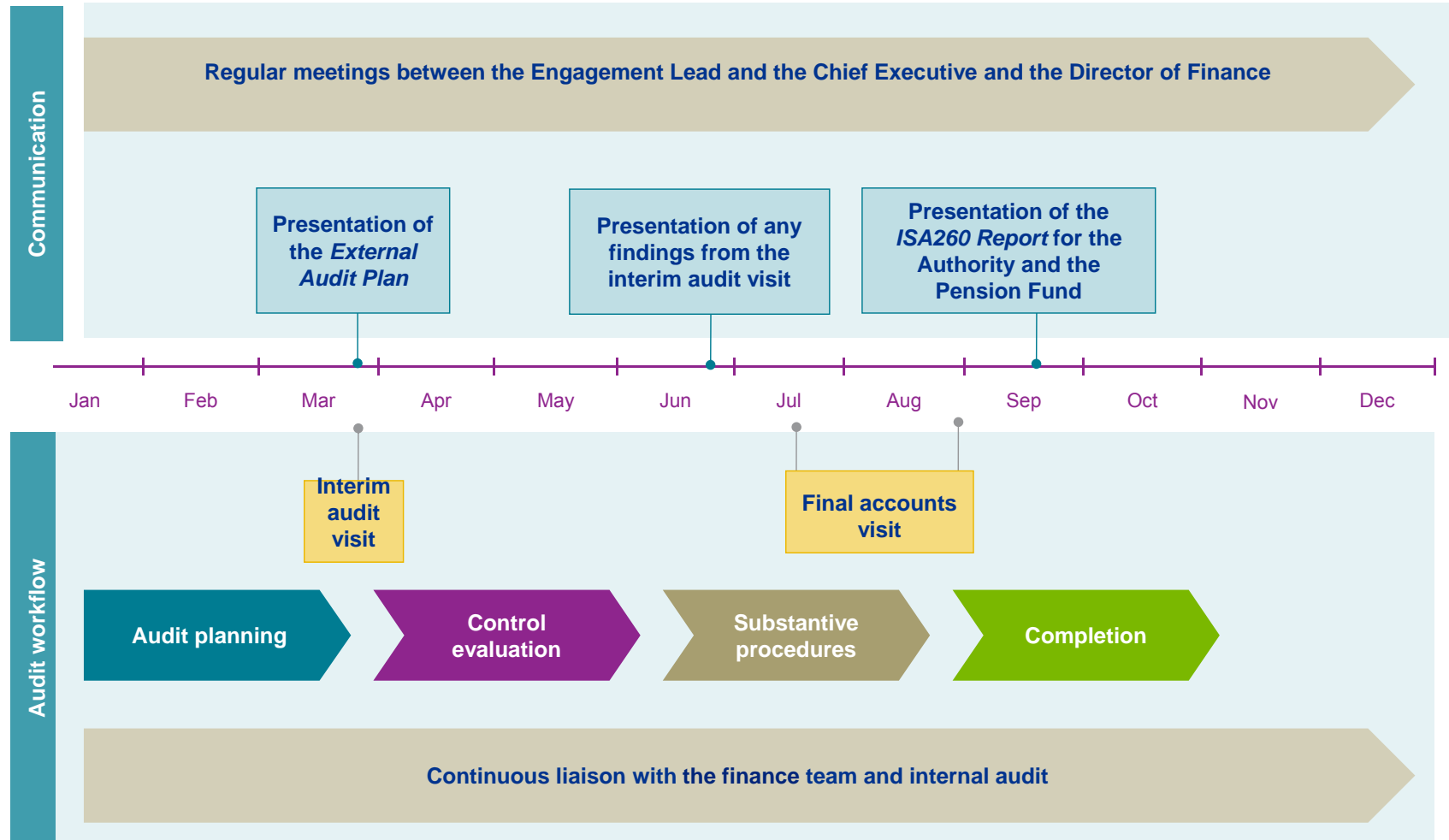
Key formal interactions with the Audit Committee are:

- March – External Audit Plan;
- September – ISA 260 Report.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during March.
- Final accounts audit during June and July.



Key: ● Audit Committee meetings.

The main fee for 2014/15 audit of the Authority is £270,440. The fee for our audit of the Pension Fund is £21,000.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

### Audit fee

Our *Audit Fee Letter 2014/15* presented to you in April 2014 first set out our fees for the 2014/15 audit. Due to the National Non Domestic Grant Return not requiring an audit certificate, the Audit Commission increased the fee scale by £2,600 to reflect the additional work required on the financial statements in relation to National Non Domestic Rates. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2014/15 (planned)	2013/14 (actual)
Main audit fee	£270,440	£270,440
Pension Fund audit fee	£21,000	£21,000

Our main audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements. The fee for 2014/15 is £270,440. This is consistent with the actual 2013/14 fee. The above fee does not include additional fees relating to answering elector queries. Fees for this work, which is ongoing, will be agreed with management and the Audit Commission.

### Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2013/14;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15 within your 2014/15 financial statements;
- you will comply with the expectations set out in our Accounts Audit Protocol, including:

- the financial statements are made available for audit in line with the agreed timescales;
- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee. The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

### Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Finance.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

### Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

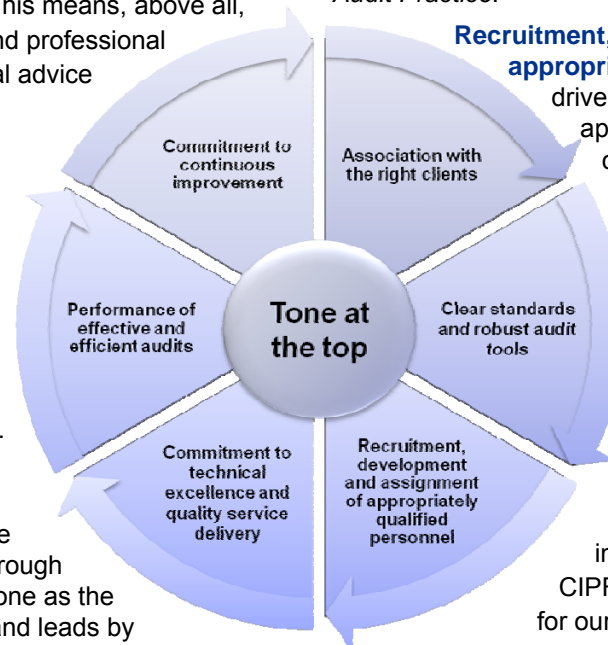
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Philip Johnstone as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced existing audit functionality. eAudit enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



**Recruitment, development and assignment of appropriately qualified personnel:** One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.



We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

### **Commitment to technical excellence and quality service delivery:**

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

### **Our quality review results**

We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

**We are required to consider fraud and the impact that this has on our audit approach.**

**We will update our risk assessment throughout the audit process and adapt our approach accordingly.**

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**Officers responsibilities**

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

**KPMG's identification of fraud risk factors**

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

**KPMG's response to identified fraud risk factors**

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management./officers

**KPMG's identified fraud risk factors**

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Revenue recognition.
  - Management override of controls.

**The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commissions' regulatory and other functions.**

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO; and
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office.



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Mike Curtis  
Director of Finance  
London Borough of Islington  
2nd Floor, Newington Barrow Way  
Islington  
London  
N7 7EP

19 February 2015

Dear Mike

**Certification of claims and returns - annual report 2013/14**

The Audit Commission requires its external auditors to prepare an annual report on the claims and returns it certifies for each client under the Audit Committee regime. This letter is our annual report for the certification work we have undertaken for 2013/14.

In 2013/14 we carried out certification work on the following claims and returns:

<b>Claim/return</b>	<b>Certified value (£)</b>
BEN01 – Housing Benefit subsidy claim	208,447,762
CFB06 – Pooling of Housing Capital Receipts return	20,388,200
<b>Total</b>	<b>228,835,962</b>

**Matters arising**

Our certification work did not identify any issues or errors with the Pooling of Housing Capital Receipts return on which we issued an unqualified certificate with no amendments made to the return.

For the Housing Benefit subsidy claim, our testing of the initial 60 cases in accordance with certification instructions identified five errors. Two of these errors related to underpayments of subsidy and as per certification instructions no further work is undertaken in relation to these. The other three errors related to the following and resulted in 40+ testing on the following:

- *A case where the Authority had overpaid benefit as a result of the claimant’s Pension Credit Assessed Income not being updated correctly. Our additional sample did not identify any further errors of this kind.*
- *A case where part of an overpayment was incorrectly classified as an eligible overpayment when it should have been classified as local authority error. Our additional sample identified five further cases where some or all of the eligible overpayment should have been classified as local authority error.*

- *A case where the rent recorded on the Council's Housing Benefit system did not agree to supporting documentation from the social housing provider. This resulted in an over award of benefit. Our additional sample did not identify any further errors of this kind although it did identify two cases where claimants were underpaid.*

As a result of our testing we qualified the Housing Benefit Subsidy claim.

**Certification work fees**

The Audit Commission set an indicative fee for our certification work of £33,648 for the work required for 2013/14. Our actual fee was the same as the indicative fee. The 2012/13 certification programme included claims not subject to certification in 2013/14 and was £52,030.

The details are set out in the table below and show a comparison by claim. The BEN01 claim fee reduction is a result of the abolition of Council Tax benefit in 2012/13 (and thus a reduction in the amount of testing we were required to complete in accordance with certification instructions).

<b>Claim</b>	<b>2013/14 Indicative fee (£)</b>	<b>2013/14 Final fee (£)</b>	<b>2012/13 Final fee (£)</b>
BEN01 – Housing Benefit subsidy claim	33,216	33,216	43,980
CFB06 – Pooling of Housing Capital Receipts	432	432	500
<b>Total</b>	<b>33,648</b>	<b>33,648</b>	<b>44,480</b>

Yours sincerely



Philip Johnstone  
Director

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. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Philip Johnstone, who is the engagement leader to the Authority (telephone 0116 256 6067, e-mail philip.johnstone@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 444 8330.

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Report of: **Corporate Director of Finance**

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	24 <sup>th</sup> March 2015		

Delete as appropriate		Non-exempt	
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## **SUBJECT: Internal Audit Annual Plan for 2015/16**

### **1. Synopsis**

1.1. The report seeks approval for the Annual Internal Audit Plan for 2015/16.

### **2. Recommendations**

2.1. To note the content of this report and approve the Annual Internal Audit Plan for 2015/16.

### **3. Background**

3.1. The Council has a statutory duty to maintain an adequate and effective internal audit function.

3.2. The Internal Audit's primary objective is to offer the Council (via the Audit Committee), Chief Executive, S151 Officer, External Audit and senior managers an independent and objective appraisal of whether objectives are being met efficiently, effectively and economically. Internal Audit also provides advice and guidance to management on risk and control issues within individual systems. We aim to achieve this through a planned programme of work based on an annual assessment of the major risks facing the authority.

3.3. The attached plan details the work to be undertaken by the Internal Audit Service in 2015/16 to deliver this objective.

## **4. Preparation and consultation**

4.1. The plan has been prepared taking the following steps:

- A list of all auditable systems was identified;
- Auditable areas was evaluated against risk criteria, departmental risk registers, and CMB principle risks and then ranked, and
- Departmental Management teams, Corporate Governance Group and the Corporate Management Board have noted and commented on plans at meetings attended by the Head of Audit.

## **5. Internal Audit Resources**

5.1. The annual plan has been drawn up to address the statutory requirements and key risks for the Council, taking into account available resources. We will be working jointly with our audit partners, PWC, to deliver the annual plan. Changes to the annual plan may be necessary during the year to reflect changing priorities and risk environment.

5.2. A contingency has been set aside to cover requests from management for ad hoc, consultancy type work on risk identification and subsequent control design (as well as urgent, unplanned reviews arising during the year).

5.3. A small number of reviews have been identified to be scoped across both Camden and Islington to explore the benefits of applying the shared service Audit approach.

## **6. Follow-up audits**

6.1. All planned audit work undertaken will be subject to a formal follow up to ensure that all agreed actions have been implemented. The timing of each follow up review is agreed with the client for the original audit. We report to the Audit Committee summary findings of all internal audit work as well as levels of implementation of agreed actions and the impact that this has on our risk assessment of that area.

## **7. Assurance Levels**

7.1. The majority of internal audit projects result in a statement of assurance of either 'substantial', 'moderate', 'limited' or 'no' assurance. These conclusions are based on the number of critical and high priority risks identified in the report. The Audit Committee will receive details of high priority issues raised in audit reviews which result in 'limited' or 'no' assurance statements.

## **8. Continuous Auditing**

8.1. The audit plan includes resource allocated to continuous auditing work. This includes automated monitoring of key controls within finance and IT systems to assess whether they are operating effectively and to flag areas and report transactions that appear to circumvent control parameters.

## 9. Financial implications

9.1. The programme of audit work will be met from within the existing Internal Audit revenue budget.

## 10. Legal Implications

10.1. The Council has a duty to maintain an adequate and effective system of internal audit in accordance with proper internal audit practices (regulation 6 Accounts and Audit Regulations 2003 amended 2006 and 2011). Due regard must be had by the Council to the CIPFA code of practice for internal audit and Public Sector Internal Audit Standards (PSIAS). Any officer or member must supply necessary documents and other records and provide any necessary information and explanation required in the course of an internal audit

## 11. Equalities Impact Assessment

11.1. There are no direct equality implications arising from the recommendation in this report

## 12. Conclusion and reasons for recommendations

12.1. This report indicates the level of work being undertaken by Internal Audit in order to provide assurance over Islington's control environment.

### Background papers:

Risk Registers, Audit Risk Assessment

### Final Report Clearance:

**Signed by** .....  
Corporate Director of Finance Date

**Received by** .....  
Head of Democratic Services Date

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ISLINGTON

# Islington Council

## Internal Audit

Annual Audit Plan – 2015/16 - Draft

# Summary of Allocation of Planned days

Due to Internal Audit departmental savings of £145,000 required in 2015/16, the number of audit days has been reduced accordingly. This is detailed in the table below.

Service Area	Total Planned Days 2015/16	2014/15	Reduction in Days
<b>Cross Cutting</b>	120	105	+15
<b>Finance</b>	185	225	-40
<b>Children's Services</b>	105	145	-40
<b>E&amp;R</b>	60	90	-30
<b>HASS</b>	70	120	-50
<b>Chief Execs</b>	45	60	-15
<b>Follow Ups*</b>	125	140	-15
<b>Contingency</b>	70	100	-30
<b>Fraud Support**</b>	55	180	-125
<b>Risk Management Support</b>	15	0	+15
<b>Total Audit Resource</b>	<b>850</b>	<b>1165</b>	<b>-315</b>

\*The number of follow up days required should be reduced following the implementation in Q1 2015/16 of Traction follow up software, which may enable more direct audit days to be directed towards delivering the main plan.

\*\*Fraud function now delivered by in-house full time employee with extra support purchased from audit contract as required

# Internal Audit Plan 2015/16

## Corporate / Cross Cutting Audits

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days	Link to Islington's Principle Risks (where applicable)
CC15_1	Operational Business Continuity	To review the Council's plans for response and recovery. Scope to include robustness of arrangements for business continuity, disaster recovery and internal/external communications, including from IT perspective. To take in to account results of Corporate exercise being held in March 2015.	2	20	<i>Resilience &amp; Responsiveness</i>
CC15_2	Health & Safety	Risk based review and controls optimisation exercise to ensure that the Council's meets its legal obligations as an employer and a landlord by ensuring that all facilities are safe, secure, and comply with relevant Health and Safety legislation and guidelines. Include risk that the Council does not put in place or maintain robust procedures, testing regimes or work programmes for key areas. To include Corporate Estates, Schools etc.	3	20	<i>Significant H&amp;S incident</i>
CC15_3	Cross Council Savings	Review of identification of savings across the Council and robustness of delivery. To include monitoring and reporting controls.	3	15	<i>Financial Strategy</i>
CC15_4	Digital Strategy and Technology Roadmap	Review of IT alignment with Council objectives and the harnessing of new technology and benefits realisation. Assess whether IT are enabling and maximising opportunities. To include IT Project Delivery, training, partnership working and enabling residents. To include a review of service area responsibilities for delivery across the Council.	1	15	<i>IT Transformation</i>
CC15_5	Anti-Social Behaviour	In line with the new Anti-Social Behaviour, Crime and Policing Act 2014, review the management and monitoring of ASB across the Council, to ensure that intelligence and information is shared and processes are streamlined to avoid duplication of effort and to ensure that communications with third/external parties is clear and concise.	1	15	
CC15_6	Information Assurance	To review arrangements post-ICO inspection and provide support for implementing lessons learnt and/or to specialise in a review of integrity of data/back up of data.	2	10	<i>Information Governance</i>

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days	Link to Islington's Principle Risks (where applicable)
CC15_7	Use of Agency Staff	Audit Committee Request. To review Council's use of agency staff and compliance with Council policy. To include the vetting arrangements for agency staff, including arrangements for temp to permanent.	2	15	
CC15_8	Public Health*	TBC with Director of Public Health	3	10	
		<b>Total days</b>		<b>120</b>	



## Finance and Resources

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days
FR15_1	Continuous Auditing/KFS Audits	As per annual CAM scope	1 to 4	120
FR15_2	iCo – Islington Limited	To review the controls, operation and governance of the new Trading Company which will provide services and expertise to a wider audience including private sector.	3	10
FR15_3	Income maximisation from Corporate Property	To review fees and charges for Corporate Property to determine whether income opportunities are maximised. Determine whether new opportunities for income generation are identified and implemented and review the controls and processes in place for collection, recording and monitoring of income.	4	10
<b>DST</b>				
FR15_5	PSN Audit	Deferred from 14/15. Specialist review of PSN requirements and their application. Following through to a strategic review over mobile working processes including current security arrangements associated with the use of employee's own devices, home working etc to ensure opportunities are maximised and risk appetite is appropriate. July submission for August approval.	1	15
FR15_6	PCI Compliance	To ensure compliance with the requirement of PCI. To review internal and external risks to data and controls around payments and reconciliations. To define roles and responsibilities across the council.	1	15
FR15_7	M3	An assessment of IT key controls in place for M3 including an assessment of controls over: access; change management; security; interfaces and; back up procedures. To define roles and stakeholder responsibilities.	3	15
		<b>Total Days</b>		<b>185</b>

## Children's Services

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days
CS15_1	Schools x 7	Risk based reviews of schools' governance, risk management and financial management arrangements	1 to 4	50
CS15_2	Stronger Families	Audit sign-off of LBI claim submission	1 to 4	15
CS15_3	Review of Schools Support Services	Review of the school support function as second line of defence, including a review of policies, procedures, communication, monitoring etc	1	10
CS15_4	Asylum Seekers - Children	Risk based review of service including assessment; grant payments etc	2	15
CS15_5	Post 16 Budget	Risk based review of controls in place to manage the consortium budget and ensure vfm. To cover DFE Funding and comms.	3	15
		<b>Total Days</b>		<b>105</b>

## Environment and Regeneration

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days
ER15_5	Flooding	Risk based review of arrangements for responding to flooding covering monitoring practices, staff training, use of key resources and intelligence to make informed decisions and comms	2	15
ER15_6	Leisure Centre Contract Arrangements	Risk based review of contract management arrangements for Leisure contract	3	15
ER15_2	Libraries	To be decided with services in order to support service development	1	15
ER15_3	Waste Management	Deferred from 14/15. Risk based review of controls surrounding key service objectives.	1	15
		<b>Total Days</b>		<b>60</b>

## Housing and Adults Social Services (HASS)

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days
HASS15_1	Safeguarding Adults*	Deferred from 2014/15. In line with the implementation of the Care Act, a review of the notification of clients requiring safeguarding ensuring they meet criteria, working with agencies including foundation trust, other local authorities, police appropriate, clients services monitored and reviewed with approval processes for services, funding / payment applied.	1	10
HASS15_3	Moving Forward Programme - Benefits Realisation	Programme management review to ensure project is in line with objectives; robust risk management; appropriate governance and scrutiny.	1	15
HASS15_7	Housing Needs Service/Temp Acc/Prevention of Homelessness Strategy Overspend	Review of the arrangements for monitoring the HNS overspend.	1	15
HASS15_9	Repairs & Maintenance - in-house reintegration	To review controls post-implementation of in-house reintegration	1	10
HASS15_8	TMOs x 4	To ensure that TMO's comply with legal and regulatory framework, provide effective financial management and administrative control, value for money from procurement of contract and services ensuring the effective management and maintenance of repairs of the buildings/estate it is responsible for improving housing conditions and the environment for the benefit of residents.	1 to 4	20
<b>Total Days</b>				<b>70</b>

\* Possible Joint Review with Camden

## Chief Executive's Department

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days
CE15_1	Governance and Member Support	Review of Governance arrangements, role of Members, Member vetting and induction, skills assessment, training etc.	1	15
CE15_2	Islington Assembly Hall	Risk based review of charging policies, income collection, purchasing arrangements, VfM, business planning and marketing.	2	15
CE15_3	VCS Organisations x1	Review of governance and financial management arrangements in specific organisations funded by the council to ensure that they are complying with the minimum standards framework established by the Third Sector Strategic Forum; to assist organisations in maintaining the necessary infrastructure to manage the delivery of council funded services. Site visits will be made to a sample of organisations. Scope will include an evaluation of the robustness of governance and accounting records - transparency of decision making process, budgetary control and monitoring, and quality of management information systems maintained to support agreed service delivery outcomes.	3	15
		<b>Total Days</b>		<b>45</b>

## Follow up reviews

125 days have been allocated for follow up work to ensure that agreed actions contained in our 2014/15 reports have been implemented.

Status of implementation of 2014/15 audit recommendations will be updated and reported in our progress reports to senior management and the Audit Committee throughout 2015/16.

Traction follow up software (a recommendation monitoring and reporting tool) will be implemented in Q1 2015/16.

<b>Corporate/Cross Cutting</b>	
Leaseholder service & Major Works charges (HASS & Finance)	
Customer Transformation Programme	
Finsbury Park Community Hub	
Programme Management	
Corporate Data Protection	
Right To Buy	
Leaseholder service & Major Works charges (HASS & Finance)	
Customer Transformation Programme	
CCTV	
<b>Finance &amp; Resources incl. DST</b>	
Bailiffs	
VAT	
SharePoint	
Capacity Planning	
Abacus	
Softbox	
<b>Children's Services</b>	
Local Education Partnership (LEP)	
Admissions/School Placements	
High Needs SEN	
Personal Budgets LBI	
<b>Schools:</b>	
	St Mary's CE
	Copenhagen
	Duncombe
	Holloway
	St. Peter's & St. Paul's RC
	Canonbury
	Hugh Myddelton
	Richard Cloudesley
	Prior Weston
	Ashmount
	Thornhill
	Yerbury

## Chief Executive's Office

Performance Monitoring

HR Service - Review of Starters and Leavers Process

Third Sector Organisations – Refugee Therapy Centre

## Environment & Regeneration

Planning/S106/Building Control

Planning Notification Procedures and Consultation

Open Spaces/Parks Management

## HASS

Brunswick Close TMO

Taverner & Peckett TMO

Pleydell TMO

Self-Directed Care Services, Individual Budgets and Direct Payments

Housing Allocations

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**Report of: Corporate Director of Finance and Resources and Assistant Chief Executive (Governance and HR)**

Meeting of:	Date	Agenda item	Ward(s)
Audit Committee	24 March 2015		

Delete as appropriate	Exempt	Non-exempt

**SUBJECT: Establishing an Islington Pension Board- Nomination and Appointment of its Members**

## 1. Synopsis

- 1.1 This is a report to approve the final constitution and terms of reference of the Pension Board, including its membership, as required by the Public Services Act 2013 and the Local Government Pension Scheme (Amendment) Governance Regulations 2014, and to make appointments to the Pension Board where nominations are available..

## 2. Recommendations

- 2.1 To note the nomination process undertaken.
- 2.2 To agree that the employer representatives on the Pension Board shall include an Islington Councillor or officer.
- 2.3 To appoint:
- (i) Vaughan West, GMB as a member representative
  - (ii) Mike Calvert, Unison as a member representative
  - (iii) David Bennett- as Independent member
  - (iv) Bob Anderson - HR Director Elliot Foundation as employer representative
  - (v) Maggie Elliot- Chair of Governors at Montem Primary School as employer representative
  - (vi) Other members of the Pension Board in so far as suitable nominations are available at the time of the meeting.
- 2.4 To note that appointment of Pension Board members where nominations are not available in time for the meeting of this committee will be made by Council.
- 2.5 To appoint one of the members of the Board as Chair.

### **3. Background**

3.1 The Public Services Pensions Act 2013 requires the establishment of local pension boards for each Local Government Pension Fund. Each administering authority must establish a pensions board no later than 1 April 2015.

3.2 Local Government Pension Scheme (Amendment) Governance Regulations 2014 (“ the Governance Regulations) provide that Pensions Board will have responsibility for assisting the ‘scheme manager’ (the Pensions Sub Committee in Islington’s case) in relation to the following matters:

To ensure compliance with:

- the Local Government Pension Scheme Regulation (LGPS),
- other legislation relating to the governance and administration of the LGPS, and
- the requirements imposed by the Pensions Regulator in relation to the LGPS to ensure the effective and efficient governance and administration of the scheme.

3.3 Members agreed the Islington Local Pension Board terms of reference at the last meeting on 29 January, subject to any changes required following the final Governance Regulations. Appendix 1 contains the proposed final terms of reference and constitution of the Board. The significant changes are:

- To remove the requirement for all employer and members representatives on the Board to have relevant experience;
- To clarify that the requirement that all employer and member representatives on the Board are required to have capacity means they are required to have their time to commit to the preparing for and attending the Board and training;
- To provide that the Independent member is non-voting

The composition and tenure agreed is as follows:

#### **Composition**

3.3.1 The membership of the Board shall consist of:

- 3 Islington Council Pension Fund employer representatives
- 3 Islington Council Pension Fund member representatives
- 1 independent member (non-voting)

No substitutes are permitted.

All members of the Board shall be appointed by full Council or its Audit Committee which shall also appoint a chair from among the members of the Board.

Any person who is applying for or appointed as a member of the Pension Board must provide the Scheme Manager with such information as and when the Scheme Manager requires to ensure that any member of the Board or person to be appointed to the Board does not have a conflict of interest.

No officer or elected member of the Council who is responsible for the discharge of any function in relation to the LGPS.

Members of the Pension Sub-Committee shall be invited to attend meetings of the Board as observers.

#### **Tenure**

3.3.2 Board members shall be appointed for three to four years. The period of appointment shall be determined on appointment by the full Council or the Council’s Audit Committee to ensure continuation of membership in equal numbers for the employer and member representatives and to achieve rolling reappointment to maintain knowledge and experience on the Board.

Board members may be re-appointed to the Board.

At least 3 months' notice of resignation from the Board must be given by Board member, to enable a replacement member to be found and the required balance of members maintained.

### 3.4 **Nomination process**

The Shadow Scheme Advisory Board has issued guidance and templates on the creation and operation of local pension boards. Each employer or member representative on a Local Pension Board will potentially represent a significant range of employers or members (as appropriate). It is therefore important that the methodology for appointment ensures that representative Board members are truly representative and appointed through an open and transparent process.

3.5 The direct appointment process has been used to select employer representatives through existing school forums, and communicating directly with all admitted bodies employers who have active staff in the Islington pension fund. Two candidates have declared an interest to participate.

- (i) Bob Anderson - HR Director Elliot Foundation
- (ii) Maggie Elliot- Chair of Governors at Montem Primary School

3.6 The recognised trade unions of the Council, including GMB and Unison, were approached to nominate 2 representatives to be on the pension board. The 2 nominees put forward are

- (i) Vaughan West, GMB
- (ii) Mike Calvert, Unison

3.7 Islington Council as the biggest employer and administering authority will be nominating a representative to be on the Pension Board. Members are asked to consider and appoint a representative at this meeting. In the event that this is not possible, the appointment may be made at Council.

3.8 Our current pensioner representative who attends the pensions sub committee as a non voting member is retiring and the process to nominate a new representative by a ballot if more than 2 nominations are received is still being finalised. Members are asked to agree to confirm the final appointment to the board and to note that in the event that the appointment may be made at Council if it cannot be made at this meeting.

3.9 The Regulations also allow for the appointment of other members i.e members who are not there to represent employers or scheme members. The Administering Authority has elected to appoint an independent member to the local pension board. The nominee the Council has approached is

- (vii) David Bennett- Co-Optee Audit Committee

3.10 The named nominees have all received copies of the role of a pension board member and the constitution. The administering authority is responsible to ensure that confirmed appointees have access to training in order to acquire a broad knowledge and understanding as required by the regulation. The Pension's Regulator has issued a code of practice guidance on conflicts of interest that pension board members need to adhere as part of performing their function as members, and this will be available to members of the pension board. All nominees will be required to sign up to the members Code of Conduct and will receive training in respect of it.

## 4. **Implications**

### 4.1 **Financial implications:**

Any cost associated with the governance of the fund will be treated as administration cost and charged to the Fund.

#### 4.2 **Legal Implications:**

The Public Services Pensions Act 2013 requires the council to establish a local pension boards by 1 April 2015.

The draft Code of Practice is issued by the Pensions Regulator under s90A of the Pensions Act 2004.

'Conflict of interest' in relation to the Pensions Board is defined as: "a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme) (s 5(5) of the Public Services Pensions Act 2013).

#### 4.3 **Environmental Implications:**

None applicable to this report.

#### 4.4 **Equality Impact Assessment:**

The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding.

The proposed regulations to setting the local pension board require equal representation of employers and members to exercise their functions. The constitution addresses the equality issue and a further impact assessment is not applicable.

## 5. **Conclusion and reasons for recommendations**

- 5.1 Members are asked to note the nomination process undertaken and to agree that the membership include an Islington Councillor or officer as an employer representative. Members are asked to appoint the independent member and employer and member representatives where nominations are available at the meeting.

### **Appendices- None**

### **Background papers:**

Final report clearance:

**Signed by:** Corporate Director for Finance and Resources      Date

**Received by:** Head of Democratic Services      Date

Report Author: Joana Marfoh  
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## APPENDIX 1

### Constitution of the Pension Board of the London Borough of Islington Pension Scheme<sup>1</sup>

#### Terms of Reference

1. To assist the London Borough of Islington as scheme manager in securing compliance with:
  - a. the Local Government Pension Scheme Regulations 2013;
  - b. any other legislation relating to the governance and administration of the Local Government Pension Fund Scheme (LGPS);
  - c. requirements imposed by the Pensions Regulator in respect of the LGPS;
  - d. such other matters as the LGPS regulations may specify
2. To assist the London Borough of Islington in securing the effective and efficient governance and administration of the scheme;
3. To consider cases that have been referred to the Pension Regulator and/or the Pension Ombudsman; recommending changes to processes, training and/or guidance where necessary;
4. To produce an annual report outlining the work of the Board throughout the financial year.
5. To make recommendations to the Pension Sub-committee.

#### Composition

The membership of the Board shall consist of:

- 3 Islington Council Pension Fund employer representatives
- 3 Islington Council Pension Fund member representatives
- 1 independent member (non-voting)

No substitutes are permitted.

All members of the Board shall be appointed by full Council or its Audit Committee which shall also appoint a chair from among the members of the Board.

Any person who is applying for or appointed as a member of the Pension Board must provide the Scheme Manager with such information as and when the Scheme Manager requires to ensure that any member of the Board or person to be appointed to the Board does not have a conflict of interest.

No officer or elected member of the Council who is responsible for the discharge of any function in relation to the LGPS.

Members of the Pension Sub-Committee shall be invited to attend meetings of the Board as observers.

#### Tenure

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<sup>1</sup> Established under regulation 106 of the Local Government Pension Scheme 2013

Board members shall be appointed for three to four years. The period of appointment shall be determined on appointment by the full Council or the Council's Audit Committee to ensure continuation of membership in equal numbers for the employer and member representatives and to achieve rolling reappointment to maintain knowledge and experience on the Board.

Board members may be re-appointed to the Board.

At least 3 months' notice of resignation from the Board must be given by Board member, to enable a replacement member to be found and the required balance of members maintained.

### **Quorum**

The quorum of the Board shall be 3 including at least one employer representative and one member representative.

### **Voting**

It is expected that the Board will function as far as possible by consensus, however each Board member, other than the Independent Member, shall have one vote.

The chair of the committee shall have a casting vote in the event of an equality of votes.

### **Frequency of meetings and notice and record requirements**

Meetings shall be held bi-annually and normally in public unless confidential or exempt information is to be discussed..

Additional meetings may be called at the request of the Chair of the Board or of the Islington Council Pension Scheme Sub-committee.

Normally meetings shall be called on 5 clear days' notice to members of the Board published on the Islington council website but if in the reasonable opinion of the Chair the holding of a meeting is urgent shorter notice of such length as the Chair shall determine may be given.

A formal record of the proceedings of the Board shall be maintained by the council's Democratic Services and circulated to members of the Board after approval by the Chair.

### **Procedure at meetings of the Board**

The Council's committee procedure rules in Part 4 of its Constitution shall apply except that where there is a conflict between the committee rules and these terms of reference the latter shall apply.

The Board shall normally meet on the same date as the Pensions sub-committee in order that its deliberations may be taken into account in relation to relevant items the agenda of the Pensions sub-committee.

### **Remuneration of Members**

Remuneration for Board members will be limited to a refund of actual expenses incurred in attending Board meetings. The Independent Member shall be entitled to any allowance provided for in the Islington Council Members Allowances Scheme in respect of the role.

## **Standards of Conduct**

The role of Pension Board members requires the highest standards of conduct and therefore the “seven principles of public life” will be applied to all Pension Board members and embodied in their code of conduct.

These are –

- **Selflessness** - Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.
- **Integrity** - Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.
- **Objectivity** - In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
- **Accountability** - Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
- **Openness** - Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands it.
- **Honesty** - Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
- **Leadership** - Holders of public office should promote and support these principles by leadership and example.

As members of a publicly-funded body involved in the discharge of public business, all members of a Board should comply with these principles in the exercise of their functions. They require the highest standards of conduct.

Members of the Board will also be expected to adhere to the Council's Code of Conduct which will be issued to them upon appointment

## **Conflicts of Interest**

The Corporate Director of Finance and Resources shall be responsible for maintaining a conflicts of interest policy for the Board.

The Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations 2013 require that members of the Board do not have conflicts of interests. All members of the Board will be required to declare any interests and any potential conflicts of interest in accordance with these requirements on appointment and at regular intervals thereafter so they can be included in the Board's register of interests.

An appointed member of the Board is under a duty to provide the Scheme Manager with such information as the Scheme Manager reasonably requires to satisfy itself that such person has no conflicts of interest.

Conflicts of interest will be included as an open agenda item at Board meetings and revisited during the meeting where necessary.

Members of the Board should review conflicts of interest at least annually and maintain their entry in the Board's register of interests.

Conflicts of Interest shall be treated akin to, and have the same effect as, disclosable pecuniary interests under the Members' Code of Conduct.

### **Knowledge of Members and Training**

All employer and member representatives on the Board are required to have capacity (i.e time to commit to the preparing for and attending the Board and training) to represent scheme employers or scheme members (as appropriate).

All members of the Pension Board must be conversant with –

- The legislation and associated guidance of the Local Government Pension Scheme (LGPS).
- Any document recording policy about the administration of the LGPS which is for the time being adopted by the Islington Pension Fund.

A member of the Pension Board must have knowledge and understanding of –

- The law relating to pensions, and
- Any other matters which are prescribed in regulations.

It is for individual Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Board.

Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Pension Board members are therefore required to maintain a written record of relevant training and development.

Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses. Board members should draw to the attention of the Corporate Director of Finance and Resources any areas in which they consider they need training or information.

Board members will comply with the Scheme Manager's training policy and are required to promptly complete any training designated by the Board as mandatory.

The Board should prepare and keep updated a list of the core documents recording policy about the administration of the Fund and make sure that the list and documents (as well as the rules of the LGPS) are accessible to its members (see publication of pension board information below).

### **Termination of Board Membership**



Appointments will terminate at the expiry of a member's term of office.

Membership of the Board shall automatically terminate in the event that:

- a member who is a councillor is appointed to the Pensions Sub-Committee as a member or a substitute member;
- a member is appointed to the role of an officer of the Scheme Manager with responsibility for the discharge of functions under the Regulations;
- a representative member ceases to represent his constituency, for example if an employer representative leaves the employment of his employer and therefore ceases to have the capacity to represent the Fund's employers;

Any appointment to the Pension Board may be terminated by the Council or the Audit Committee if any of the following situations arise:

- a member has a conflict of interest which cannot be managed in accordance with the Board's conflicts policy;
- a member fails to attend meetings or otherwise comply with the requirements of being a Board member, for example fails to attend the necessary knowledge and understanding training;
- a member is not adequately meeting their duties in some other respect after this having been drawn to their attention and an adequate time being given for improvement;
- continued membership of a member is likely to cause damage to the reputation of the Board and/or of the council.

Where issues of this nature arise, the chair of the Board will have lead responsibility for an initial informal discussion with the member about the concerns. The Chair of the Board will be advised by the Corporate Director of Finance and Resources. If the issue cannot be satisfactorily resolved, the Board may recommend to the Council or its Audit Committee that the Board Member be removed from the Board.

## **Undertaking**

Board members will be required to sign a written undertaking that they understand the requirements of the role and commit to those requirements. This will include without limitation:

- disclosing all dual interests and responsibilities which have the potential to become conflicts of interest and providing the Scheme Manager with such information as and when the Scheme Manager requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest
- committing to attend meetings as required;
- committing to undertake and attend the necessary knowledge and understanding training;
- undertaking to abide by the Board's terms of reference and wider constitutional documents.
- complying with the Council's code of conduct
- complying with the Council's obligations and policies on data protection, information security and acceptable use.
- agreeing that they have read and understood a knowledge and policy document including a list of the core documents recording policy about the administration of the fund as set out by the Corporate Director of Finance on behalf of the Scheme Manager

## **Advisers to the Board**

The Board will primarily be supported in its role and responsibilities by officers of the Council. Subject to any applicable regulation and legislation from time to time in force and to their use and any fees being agreed by the Corporate Director of Finance and Resources on behalf of the Scheme Manager in advance, the Board may consult with other advisors to help it better perform its duties including:

- The Fund's Actuary;
- The Fund's Administrator;
- The Fund's Investment Adviser(s);
- The Scheme Manager
- Other advisers, as approved by the Scheme Manager.

## **Reporting Breaches**

Any breach brought to the attention of the Board, whether potential or actual, shall be dealt with in accordance with the procedure set out in a separate policy document.

## **Publication of Pension Board information**

Up to date information will be posted on the Islington Pension Fund website showing

- The names and information of the Pension Board members
- How the scheme members are represented on the Pension Board
- The responsibilities of the Pension Board as a whole
- The full terms of reference and policies of the Pension Board and how they operate
- The Pension Board appointment process
- Who each individual Pension Board member represents
- Any specific roles and responsibilities of individual Pension Board members.

Pension Board papers, agendas and minutes of meetings will be published on the Islington Pension Fund area of the Council's website. These may at the discretion of the Scheme Manager be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

The Scheme Manager will also consider requests for additional information to be published or made available to individual scheme members to encourage scheme member engagement and promote a culture of openness and transparency.

## **Definitions**

The undernoted terms shall have the following meaning when used in this document:

"Pension Board" or "Board"	Means the Pension Board for the administering authority for the LB Islington Pension Fund as required under the Public Service Pensions Act 2013
"Scheme Manager"	Means LB Islington as administering authority of the Islington Pension Fund.
"LGPS"	The Local Government Pension Scheme as constituted by the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and the The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
"Scheme"	Means the Local Government Pension Scheme as defined under "LGPS"

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