KPMG

External Audit Report 2016/17 DRAFT

London Borough of Islington Council and London Borough of Islington Pension Fund

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11 September 2017

Content

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

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

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

Important notice

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

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

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

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

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting. The following work is ongoing:

- Whole of government accounts
- Pension fund annual report
- Council - completion of non significant disclosures

Summary

Financial statements audit – see section 2 for further details

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

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

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

- There are no unadjusted audit differences.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- In additional to our routine requests, which are explained in section 2, we are asking for management representations regarding the non-consolidation of Islington Limited and the completeness, accuracy and valuation of property, plant and equipment.
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the Narrative Report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year.
- The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries relating to 2013/14, 2014/15 and 2015/16. Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion for the deadline of 30 September 2017.

Summary

Other matters

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

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

We identified one prior year recommendation that requires further action. We have made four new recommendations as a result of our 2016/17 work. The recommendations relate to submission of the pension fund accounts, the draft whole of government accounts pack, controls within the pension fund and preparation for the brought forward deadline next year. All recommendations are shown in appendix 1.

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

- Housing benefits grant claim: The audit is underway and will be completed and signed off by 30 November 2017;
- Pooled housing capital receipts: This work commences in October 2017 to ensure sign off by 30 November 2017; and
- Teachers pension contribution return: This audit is underway and will be completed and signed off 30 November 2017.

Our fees for this work are explained in section two.

Financial statements audit

We audit your financial statements by undertaking the following:

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

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

1. Business understanding	In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made two recommendations which relate to bank reconciliations and pensioner payroll controls. We believe that these recommendations (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We are pleased to report the Council continues to produce good-quality working papers with clear audit trails.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related primarily to: • Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis: The changes to the EFA are aimed at demonstrating to stakeholders how the funding available to the Authority for the year has been used in providing services, in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices; • Amended guidance on the Annual Governance Statement; and • Changes in the format of the Pension Fund accounts.
5. Accounts production	We received complete draft accounts for the Council by 28 June 2017 in accordance with the deadline. We did not receive the draft pension fund accounts until 3 August 2017. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We will debrief with Finance to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. During the audit we identified only presentational issues which have been adjusted as they have no material effect on the primary financial statements. One of the presentational audit adjustments relating to termination benefits was above our lower reporting threshold and further information for this is at appendix 3.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Director of Finance on 8 September 2017. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking Management to provide specific representations on the non-consolidation of Islington Limited and the completeness, accuracy and valuation of property, plant and equipment.

Financial statements audit

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

— Significant difficulties encountered during the audit;

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

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

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

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

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

- The results of the procedures we performed over changes in the pension liability due to LGPS Triennial Valuation and valuation of land and buildings which were identified as significant risks in our audit plan;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Significant changes in the pension liability due to LGPS Triennial Valuation (Council and Pension Fund) During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The pension numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward for the Council to 31 March 2017. For 2017/18 and 2018/19 the actuary will continue to roll forward the valuation for accounting purposes (IAS 19) based on more limited data. There is a risk that the data provided to the actuary for the triennial valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. For both the triennial valuation and the roll forwards of the valuation to 31 March 2017, the actuary will use assumptions for items such as life expectancy of members, inflation, pay rises and discount rates. Small differences in these assumptions can lead to material changes in the liability. The Pension Fund includes limited disclosures around actuarial pensions liabilities but these are key to understanding the financial position of the Pension Fund.	**Balance sheet:** £868.4m *PY: £570.3m*	As part of our audit of the Pension Fund Liability, we have undertaken work on a test basis to agree the data provided to the actuary back to the systems and reports from which it was derived and to understand the controls in place to ensure the accuracy of this data. This work focussed on the data relating to the Council but also corroborating the data used to that which is generated to request pension payments. We reviewed the assumptions adopted in calculating the pension liability using the work of independent experts engaged by the NAO, together with a review by the KPMG Pensions team. We have also reviewed the competence and experience of the actuary. We have tested the disclosure against CIPFA requirements. There are no issues that we need to bring to your attention.

Financial statements audit

<table>
<tr><th>SIGNIFICANT audit risk</th><th>Account balances effected</th><th>Summary of findings</th></tr>
<tr><td>Valuation of Land and Buildings (Council only)

In 2015/16 the Council reported Property, Plant and Equipment of £3,761m. Of this balance, £247m related to assets held at historical cost. The remaining balance relates to Council dwellings and other land and buildings which are valued at fair value. Last year the Council revalued £3.1bn of the £3.7bn assets that are valued at fair value. The Council therefore exercises judgement in determining the fair value of the assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be a significant risk.

Local authorities are required to ensure that as a minimum a rolling programme is in place to ensure all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. From 2015/16 the Council implemented a triennial valuations of assets, as it took the view that revaluation every five years is insufficient to ensure that the carrying balance is not materially misstated. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be an area of audit focus.</td><td>Note 19: PPE

£3,911m

PY £3,761m

(NBV)</td><td>We have:

• Reviewed the approach to valuation, the qualifications, reports by the Council’s valuers, and judgements made by the Council;
• We reviewed the Council’s judgement in assessing movements from the valuation date;
• Reviewed the disclosures made to ensure they are complete as per the valuations on the financial statements for all assets valued;
• Confirmed the information provided to the valuer from the Authority;
• Compared the assumptions made by your valuer to benchmarks;
• Used our specialist to review the approach taken, the valuations and the assess the reasonableness of the outcomes;
• Sampled properties to confirm they exist,
• Sampled properties and reviewed the rights and obligations to confirm the Council owns the asset;
• Completed testing over new capital additions in year to confirm these are appropriately capitalised and that Authority ownership is evidenced; and
• Reviewed disposals made in year and confirm appropriate removal from the PPE balance in 2016-17.

There are no issues that we need to bring to your attention. We have requested a management representation for the completeness, accuracy and valuation of property, plant and equipment.</td></tr>
</table>

Financial statements audit

Other areas of audit focus

We identified two other areas of audit focus. These are not considered to be significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we carry out audit procedures to ensure that there is no material misstatement.

Other areas of audit focus	Account balances effected	Summary of findings
New format of the core financial statements (Council only)	CiES MiRS EFA Statement	We have: • assessed how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code; and • checked the restated numbers and associated disclosures for accuracy , correct presentation and compliance with applicable Accounting Standards and Code guidance. There are no issues that we need to bring to your attention.
Pension fund investments (Pension Fund only)	**Pension Fund Net Asset Statement** Net Assets: £1,255m *PY: £1,084m*	We have: • undertaken detailed testing of investments including assessing the design of controls in place; • obtained confirmations from the Fund managers and Custodians, and reconciliations between the two; • reviewed ISAE3402 compliance reports on each Fund Manager comparing performance to known benchmarks; and • for unquoted investments we checked the basis of the valuations and back to audited accounts as they become available. There are no issues that we need to bring to your attention.

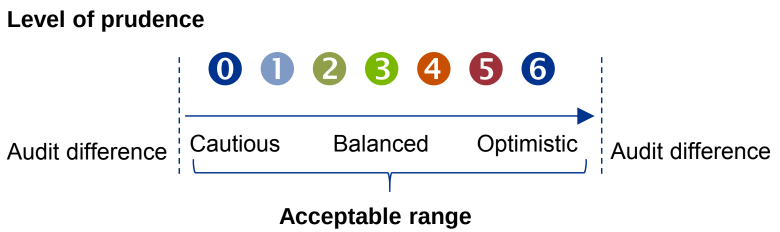
Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. **Council:** We do not consider this to be a significant risk, as there are limited incentives and opportunities to manipulate the way income is recognised. We have obtained an understanding of revenue controls. We evaluated and tested accounting policies for income recognition to ensure they are consistent with the requirements of the Code of Practice on Local Authority Accounting. We have performed detailed testing of revenue transactions, focusing on the areas we consider to be of greatest risk, for example, fees and charges and grant income where there are conditions attached to the grant income. **Pension Fund:** We do not consider this to be a significant risk for local authority Pension Funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebutted this risk and have not incorporated specific work into our audit plan in this area over and above our standard fraud procedures.	There are no matters arising from this work that we need to bring to your attention.
Fraud risk from management override of controls	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. 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. We have not identified any specific additional risks of management override.	Through our testing, including testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified. We performed specific procedures to: review accounting judgements which are impacting the reported outturn position; review of controls associated with, and undertaken, sample testing of manual journals; and reviewed the yearend cut off process to ensure that transactions are reflected in the correct period. There are no matters arising from this work that we need to bring to your attention.

Financial statements audit

Judgements in your financial statements

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



Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Provisions (excluding NDR)	3	3	£13.5m (PY:£13.3m)	The balance has remained steady with minimal movements. We consider the related disclosures to be proportionate and provisions have been recognised on a consistent basis.
NDR provisions	3	3	£6.0m (PY:£4.6m)	In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates. We consider the disclosure to be proportionate and provisions have been recognised on a consistent basis.
Creditors including accruals	3	3	£103.5m (PY:£91.6m)	We consider the judgements involved in the creditors disclosure to be balanced. The main accruals are consistent with the prior year and in line with our expectations. The increase largely relates to central government creditors.
Pension liability	3	3	£868.4m (PY:£570.3m)	We regarded the actuary as an expert and reviewed the actuarial report and considered the application of assumptions including discount rate, inflation, salary growth and life expectancy against our expectations. We have not identified any issues with the information recorded in the accounts.

Financial statements audit

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
PPE: HRA assets	❸	❸	£2,980.4m (PY:£2,880.6m)	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an external valuation expert to provide valuation estimates. We reviewed instructions provided and deem that the valuation exercise was in line with those instructions. The resulting increase is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information.
Debtors provisioning	❷	❷	£53.2m (PY:£50.1m)	We reviewed the impairment for debtors and for certain classes of debt especially relating to individuals our view is that the Authority is slightly on the cautious side but well within the acceptable range.

Narrative report of the Authority

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

Pension fund audit

The audit of the pension fund was completed alongside the main audit. We are yet to receive and audit the Pension Fund Annual Report. There are no other specific matters to bring to your attention relating to the audit.

Pension fund annual report

We have not yet received a copy of the pension fund annual report. Once this is received we will consider whether it is consistent with the Fund's financial statements. We will read the information in the Fund's Annual Report to identify material inconsistencies with the Fund's financial statements.

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Financial statements audit

Queries from local electors

We did not receive any questions or objections from members of the public this year.

Audit certificate

The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries relating to 2013/14, 2014/15 and 2015/16. Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

Whole of Government Accounts (WGA)

We have not completed the review of your WGA consolidation pack at the time of issuing this draft report. The WGA submission deadline was 31 July 2017, however the Council did not submit the return until 11 August 2017 due to technical issues unlocking the pack. This has meant that the Council's information is not appearing in the current published mismatch reports. Once the NAO releases the next version of the mismatch reports we will complete our testing procedures to conclude on the WGA return.

Other grants and claims work

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

- Housing benefits grant claim: The audit is underway and will be completed and signed off by 30 November 2017;
- Pooled housing capital receipts: This work will commence in October 2017 to ensure sign off by 30 November 2017; and
- Teachers pension contribution return: This audit is underway and will be completed and signed off by 30 November 2017.

Audit fees

Our fee for the audit was £202,830 excluding VAT (£202,830 excluding VAT in 2015/16). The audit fee for the Pension Fund was £21,000 excluding VAT (£21,000 excluding VAT in 2015/16).

This fee was in line with that highlighted in our audit plan approved by the Audit Committee in March 2017.

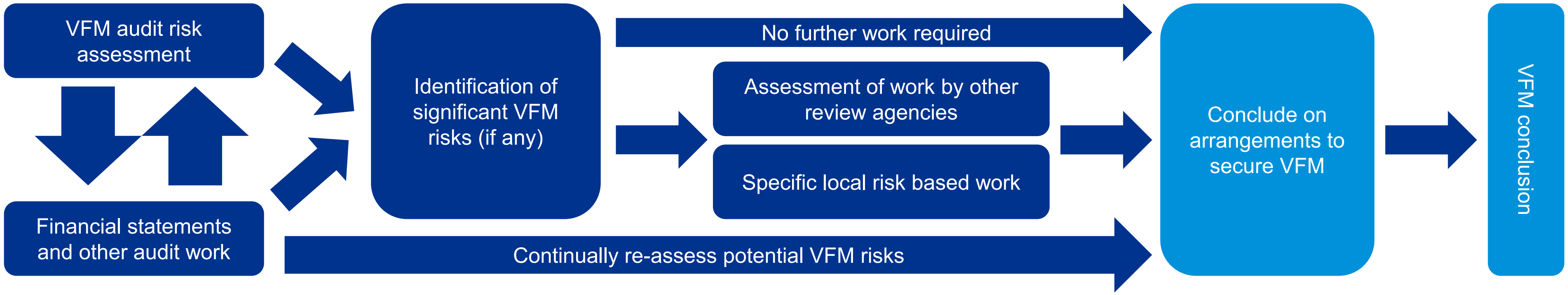
Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £24,975 excluding VAT (£24,912 excluding VAT in 2015/16). Planned fees for other grants and claims which do not fall under the PSAA arrangements is £6,000 excluding VAT (£6,000 excluding VAT in 2015/16).

Our fee for the Council's subsidiary, Islington Limited was £4,000 excluding VAT (£4,000 excluding VAT in 2015/16).

We have not completed any non-audit work at the Authority in year.

Value for money

For 2016/17 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We did not identify any significant VFM risks and provide a summary below of the other areas of audit focus arising from our VFM work. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.



Other areas of audit focus

Below we set out the detailed findings against other areas of audit focus for our VFM work.

VFM: other area of audit focus	Our audit response and findings
Financial resilience	■ We reviewed the controls and governance surrounding the budget setting and in year monitoring, including budget monitoring and reporting arrangements. We found this to be robust. ■ We considered the savings plans and the MTFP that the Authority has in place. We consider that the Authority has procedures in place that allow it to plan its finances effectively and to support the delivery of its strategic priorities and meets its statutory functions. ■ We reviewed the monitoring process in place for savings plans and deemed this appropriate for the Authority. There are no other matters arising from this work that we need to bring to your attention.

Recommendations raised and followed up

Recommendations raised as a result of our work in the current year are as follows:

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

#	Risk	Recommendation	Management Response / Officer / Due Date
1	❷	**Whole of government accounts submission** The WGA submission deadline was 31 July 2017, however the Council did not submit the return until 11 August 2017 due to technical issues unlocking the pack which had to be resolved externally. The Council's data was therefore not included in the first two iterations of the mismatch tool published by the NAO and used as part of our audit. In future years should ensure that in future years the pack is prepared earlier enough to allow issues to be resolved in time to meet the statutory deadline.	Agreed. The delay this year was due to technical issues with the submission form outside the Council's control. The return will be submitted on time through earlier preparation. Responsible: Director of Financial Management .
2	❸	**Bank reconciliation review** The Pension Fund bank reconciliation was not completed between October 2016 and February 2017. For the months where the reconciliation was complete there is no evidence of senior manager review. Council bank reconciliations are performed throughout the year, however there is no formal plan or schedule to confirm which accounts are reconciled monthly. Furthermore, there is only an annual review and sign off of the reconciliations. We recommend that bank reconciliations are completed and reviewed monthly for all material and active pension fund and council bank accounts. This will ensure the timely identification of issues and the opportunity to take appropriate action in a timely manner.	Agreed. Pension fund: the resourcing issues are now resolved and reconciliations are taking place. Council: All accounts should and are being reconciled monthly and a senior management review will be recorded each month to demonstrate regular reviews Responsible: Director of Financial Management

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
3	3	**Review of pension payroll starters** We note that the control reconciling new pension payroll starters to Altair (Pension Fund system) has not been completed from October to March 2017. We have also noted that for the months the reconciliation has been completed, there is no evidence of review. We recommend that this control is enforced and monthly review by a senior member of staff takes place. This will ensure the timely identification of issues and the opportunity to take appropriate action in a timely manner.	Agreed. The resourcing issue has been resolved and the reconciliation and review will take place. Responsible: Director of Financial Management
4	3	**Preparation for a faster accounts closure** The deadline for completion of the 2017/18 audit will come forward to the 31 July 2018. This will mean a reduction in the time for the Council to prepare draft financial statements. The Council needs to ensure develops a project plan to ensure it can deliver on the revised deadline. This should include a timetable for drafting the accounts, completion and quality review of working papers.	Agreed. Work has already begun on this and a detailed action plan has been devised and is being implemented. The Council is confident of meeting the earlier deadline. Responsible: Director of Financial Management

Appendix 1

Recommendations raised and followed up

We followed up the recommendations from our prior year audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
1	0	1

	Risk	Recommendation	Management Response / Officer / Due Date	Status at September 2017
1	2	**Preparing and publishing Pension Fund statements** We received the draft pension fund accounts before the start of thaudit however these did not form part of the financial statements published on the Authority's website. The Authority should insure that in future years it has appropriate arrangements in place to ensure that it prepares and publishes a full set of draft financial statements on its website by the statutory deadline.	**Accepted** Management will ensure the pension fund accounts are published alongside the main financial statements by 30 June in future. Responsible: Director of Financial Management	**Overdue** The Pension Fund statements were not published on the Authority's website. The Authority did not provide the accounts for audit until 3 August 2017 and a complete set was not provided until the week commencing 4 September 2017. This was due to staffing constraints. A new member of staff has been since recruited to the team to resolve these issues. Responsible: Director of Financial Management

Appendix 2

Materiality and reporting of audit differences

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

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

We reassessed materiality for the Authority at the start of the final accounts audit due to the reduction in the general fund reserve balance.

Materiality for the Authority's accounts was set at £8.6 million which equates to around 0.8% of gross expenditure. The level of materiality set out in our audit plan issued to the Audit Committee in March 2017 was £10.5m.

Materiality for the Pension Fund was set at £10.0 million which equates to around 0.9% of gross assets.

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

Reporting to 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*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.43 million for the Authority and less than £0.5 million for the Pension Fund.

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

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

— Our audit of the Authority and Pension Fund financial statements did not identify any significant adjustments to figures in the principal financial statements.

— We identified presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (‘the Code’) and for consistency within the accounts. These have been amended by management.

— We identified one material difference of £19k in relation to the disclosure of termination benefits. For this disclosure we had a lower materiality level of £10k. The amendment has been made by the Council.

Uncorrected audit differences

— We are pleased to report that there are no uncorrected audit differences.

Appendix 4

Audit independence

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

Integrity, objectivity and independence

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

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

Audit matters

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

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

Appendix 4

Audit independence

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

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

Auditor declaration

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

We have provided no non-audit services.

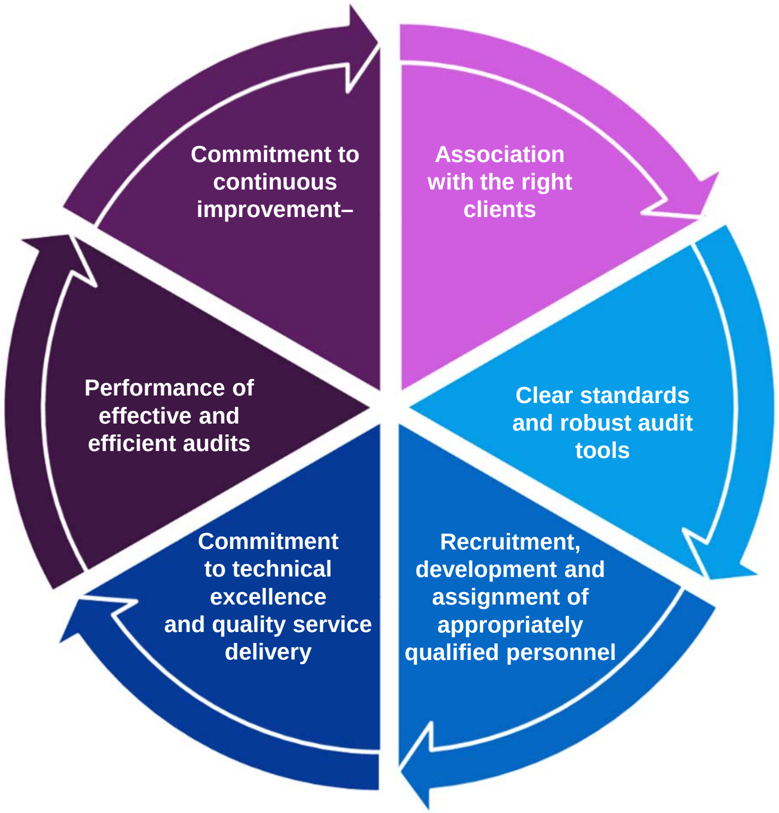
Appendix 5

Audit quality framework

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

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

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



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

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

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

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

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