



# External Audit Report 2017/18

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

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DRAFT: July 2018

# 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](http://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](mailto: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](mailto: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 Council and London Borough of Islington Pension Fund (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

**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:

- Completion of whole of government accounts audit; and
- Review of pension fund annual report.

## Section One

# 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 31 July 2018, following the Audit Committee adopting them and receipt of the management representations letter.

We anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements for the deadline of 31 July 2018.

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 is one unadjusted audit misstatement of £2.6m. This has not been amended for by the Council as it not material, as explained in Appendix 3.
- 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 2017/18.
- In addition to our routine requests we are asking for management representations over the following, which are explained in section 2:
  - Private Finance Initiative contracts
  - Fair value hierarchy
  - Consolidation
- We reviewed the narrative report and have no matters to raise with you except of those already communicated to you and adjusted.
- We did not receive any queries or objections from local electors this year.
- We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report with the pension fund accounts included in the financial statements of London Borough of Islington. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December following the end of the relevant financial year. As the authority has not yet prepared the Pension Fund Annual Report we have not issued our report on the financial statements included in the Pension Fund Annual Report. Until we have done so, 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 and the Code of Audit Practice.

### 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 31 July 2018.

### 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.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

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 2017/18 financial statements.

We are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2016/17. We have made no new recommendations as a result of our 2017/18 work. Delivery of prior year recommendations is shown in appendix 1.

The status of our grants and claim work is summarised below:

- Housing benefits grant claim: This work commences in September 2018 to ensure sign off by 30 November 2018;
- Pooled housing capital receipts: This work commences in October 2018 to ensure sign off by 30 November 2018 and;
- Teachers pension contribution return: This work commences in October 2018 to ensure sign off by 30 November 2018;

The fees for this work is explained in section two.

## Section Two

# Financial statements audit

We audit your financial statements by undertaking the following:

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

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

<b>1. Business understanding</b>	In our 2017/18 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.
<b>2. Assessment of the control environment</b>	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 no recommendations. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work.
<b>3. Prepared by client request (PBC)</b>	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 that this has resulted in good-quality working papers with clear audit trails.

## Section Two

# Financial statements audit

4. Accounting standards	<p>We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes were minor but included:</p> <ul style="list-style-type: none"><li>• Updates to clarify the reporting requirements for accounting policies and going concern reporting;</li><li>• The introduction of key reporting principles for the Narrative Report; and</li><li>• Changes in the Pension Fund accounts to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.</li></ul>
5. Accounts Production	<p>We received complete draft accounts by 30 May 2018 in accordance with the deadline. 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 2017/18.</p> <p>The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to yearend to proactively address issues as they emerge. We consider that the overall process for the preparation of your financial statements is adequate. We consider the Authority's accounting practices to be appropriate.</p> <p>We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.</p>
6. Testing	<p>We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. There is one non-material unadjusted misstatement relating to PPE which is detailed in Appendix 3. There were also a minor number of presentational issues which have been adjusted as they have no material effect on the financial statements.</p>
7. Representations	<p>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 13 July 2018. 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:</p> <ul style="list-style-type: none"><li>• Private Finance Initiative contracts;</li><li>• Fair value hierarchy; and</li><li>• Non consolidation of the Islington Limited subsidiary.</li></ul>

## Section Two

# 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 2017/18 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 valuation of land and buildings which was identified as significant risk within 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.



## Section Two

# Financial statements audit

### Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
<p><b>Valuation of land and buildings (Council only)</b></p> <p>In 2017/18 the Council reported Property, Plant and Equipment of £4.04bn. Of this balance, £267m 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. 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.</p> <p>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.</p>	<p><b>PPE</b></p> <p>£4,044m</p> <p><i>PY £3,911m</i></p> <p>(NBV)</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Reviewed the approach to valuation, the qualifications, reports by the Council's valuers, and judgements made by the Council;</li> <li>• Reviewed the Council's judgement in assessing movements from the valuation date;</li> <li>• Reviewed the disclosures made to ensure they are complete as per the valuations on the financial statements for all assets valued;</li> <li>• Confirmed the information provided to the valuer from the Authority;</li> <li>• Compared the assumptions made by your valuer to benchmarks;</li> <li>• Used our specialist to review the approach taken, the valuations and the assess the reasonableness of the outcomes;</li> <li>• Sampled properties to confirm they exist;</li> <li>• Sampled properties and reviewed the rights and obligations to confirm the Council owns the asset;</li> <li>• Completed testing over new capital additions in year to confirm these are appropriately capitalised and that Authority ownership is evidenced; and</li> <li>• Reviewed disposals made in year and confirm appropriate removal from the PPE balance in 2017-18.</li> </ul> <p>We identified a misstatement of £2.69m, where a School asset was double counted. The Council has not adjusted for this as it is not material to the financial statements. There are no further issues that we need to bring to your attention.</p>

## Section Two

# Financial statements audit

### Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Pension liabilities	<p><b>Liability Related to Defined Benefit Pensions Scheme</b></p> <p>£803m</p> <p><i>PY £868m</i></p> <p>(net liability)</p>	<p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of London Borough of Islington Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.</p> <p>There are financial and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of the Authority's employees and should be based on appropriate data. The basis of assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p> <p>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. We reviewed the competence and experience of the actuary. We have tested the disclosure against CIPFA requirements.</p> <p>There are no issues that we need to bring to your attention.</p>
Faster close	Pervasive	<p>Previously the Authority was required to prepare draft accounts by 30 June and signed accounts by 30 September. For 2017/18 onwards draft accounts are required by 31 May and signed accounts by 31 July. These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the time available for audit is two months shorter than in prior years.</p> <p>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We advanced audit work into the interim visit in order to streamline the year end audit work. We received draft financial statements in advance of the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years.</p> <p>There are no issues that we need to bring to your attention.</p>

## Section Two

# Financial statements audit

### Pension Fund other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Valuation of unquoted investments	<p><b>Private Equity investments</b></p> <p>£32.3mm</p> <p><i>PY £26.3m</i></p>	<p>We obtained confirmations from the Fund managers and Custodians, and reconciliations between the two and reviewed ISAE3402 compliance reports on each Fund Manager. For unquoted investments we checked the basis of the valuations and back to audited accounts.</p>
Faster close	<p>Financial statements as a whole</p>	<p>In prior years, the Pension Fund has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>These changes represent a significant change to the timetable that the Pension Fund has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.</p> <p>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.</p> <p>We received draft financial statements in advance of the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years.</p> <p>There are no issues that we need to bring to your attention.</p>

## Section Two

# Financial statements audit

### Authority and Pension Fund

Professional standards require us to consider two standard risks.

Risks that ISAs require us to assess in all cases	Why	Summary of findings
Management override of controls	Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	Our procedures, including testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified. Our audit incorporated the risk of Management override as a default significant risk. In line with our methodology, we carried 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.
Fraud risk from revenue recognition	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p><b>Authority:</b> 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.</p> <p><b>Pension Fund:</b> 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.</p>	There are no matters arising from this work that we need to bring to your attention.

## Section Two

# 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	£13.8m (PY:£13.5m)	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	£6.4m (PY:£6.0m)	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	£142.3m (PY:£103.5m)	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.
PPE: HRA assets	3	3	£3,241m (PY:£3,057m)	The Authority continues its use of the beacon methodology in line with the DCLG's <i>Stock Valuation for Resource Accounting</i> 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.

## Section Two

# Financial statements audit

Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
PPE: asset lives	3	3	£4,044m (PY:£3,911m)	Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. Useful lives for property assets are provided by a qualified valuer. There is a level of uncertainty around estimating the useful lives of assets but it is anticipated the rolling programme of revaluation and annual review minimises the uncertainty.
Debtors provisioning	3	2	£53.2m (PY:£50.1m)	We reviewed the impairment for debtors and there are no matters arising from this work that we need to bring to your attention. In 2016/17, the Authority was slightly on the cautious side (for certain classes of debt especially relating to individuals) but well within the acceptable range.
Pension liability	3	3	£802m (PY:£868m)	<p>The Authority continues to use Mercer to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation.</p> <p>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.</p>

## Section Two

# Financial statements audit

### **Narrative report of the Authority**

We have 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. There are no specific matters to bring to your attention relating to this.

### **Pension fund annual report**

We reviewed the consistency of the Fund's financial statements in the Fund's Annual Report and the financial statements included in London Borough of Islington Council's financial statements. We confirm that the Fund's financial statements are consistent with the pension fund financial statements included in the accounts of London Borough of Islington Council. We read the information in the Fund's Annual Report to identify material inconsistencies with the Fund's financial statements. We can confirm it is not inconsistent with the financial information contained in the audited financial statements. As such we anticipate issuing an unqualified consistency opinion on the pension fund financial statements.

### **Queries from local electors**

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

## Section Two

# Financial statements audit

### Audit certificate

To issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as the Authority has not provided us with a draft Pension Fund Annual Report. The deadline for the Authority to publish this is 1 December 2018 but we expect to be able to issue our audit report for the Pension Fund Annual Report in August 2018 to allow early publication.

We have not received any objections to the accounts from local electors, therefore we expect to issue our audit certificate in September 2018 following completion of the above.

### Whole of Government Accounts (WGA)

We have not completed the review of your WGA consolidation pack at the time of issuing this draft report.

### Other grants and claims work

We The status of our grants and claim work is presented below:

- Housing benefits grant claim: This work commences in September 2018 to ensure sign off by 30 November 2018;
- Pooled housing capital receipts: This work commences in October 2018 to ensure sign off by 30 November 2018 and;
- Teachers pension contribution return: This work commences in October 2018 to ensure sign off by 30 November 2018;

### Audit fees

Our fee for the audit was £202,830 excluding VAT (£202,830 excluding VAT in 2016/17). The audit fee for the Pension Fund was £21,000 excluding VAT (£21,000 excluding VAT in 2016/17).

This fee was in line with that highlighted in our audit plan approved by the Audit Committee in January 2018.

Our work on the certification of Housing Benefits (BEN01) is planned for October 2018. The planned scale fee for this is £24,975 excluding VAT (£24,975 excluding VAT in 2016/17). 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 2016/17).

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



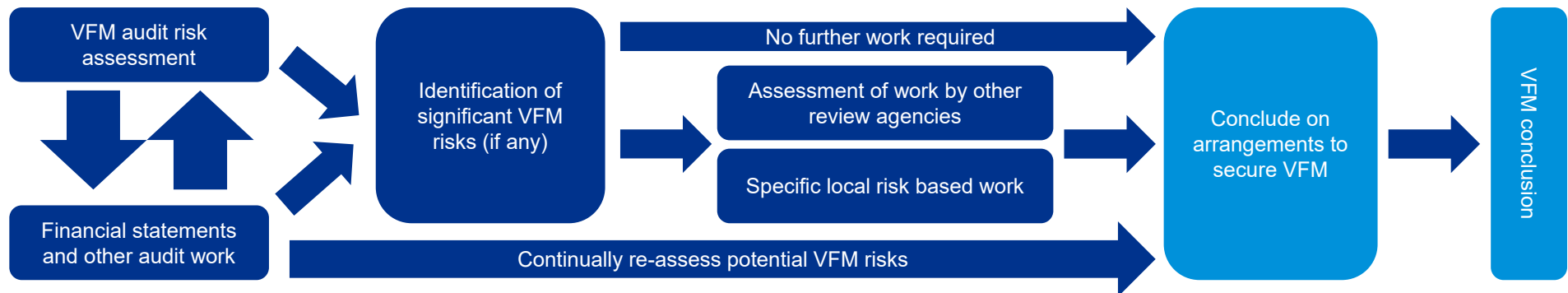
## Section Three

# Value for money

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as 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 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

## Section Three

# Value for money

### 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	<ul style="list-style-type: none"><li>■ 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.</li><li>■ 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.</li><li>■ We reviewed the monitoring process in place for savings plans and deemed this appropriate for the Authority.</li></ul> <p>There are no other matters arising from this work that we need to bring to your attention.</p>

## Appendix 1

# Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding
4	4	0

#	Risk	Recommendation	Management Response / Officer	Status at July 2018
1	2	<p><b>Whole of government accounts submission</b></p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Responsible: Director of Financial Management</p>	<p><b>Implemented</b></p> <p>WGA submitted before the deadline in 2018.</p>
2	3	<p><b>Bank reconciliation review</b></p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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</p> <p>Responsible: Director of Financial Management</p>	<p><b>Implemented</b></p> <p>A reconciliation is now completed.</p>

## Appendix 1

# Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer	Status at July 2018
3	3	<p><b>Review of pension payroll starters</b></p> <p>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.</p> <p>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.</p>	<p>Agreed. The resourcing issue has been resolved and the reconciliation and review will take place.</p> <p>Responsible: Director of Financial Management</p>	<p><b>Implemented</b></p> <p>Each month a report is produced by Payroll listing all pension new starters, this is cross-referenced and reconciled with the appropriate pension documentation by a Pensions Team Leader to ensure the validity of the payment.</p>
4	3	<p><b>Preparation for a faster accounts closure</b></p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Responsible: Director of Financial Management</p>	<p><b>Implemented</b></p> <p>The corporate accountancy team has met regularly in 2017/18 to assess progress with the faster close action plan. We received draft financial statements in advance of the statutory deadline.</p>

## 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 used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in January 2018.

Materiality for the Authority's accounts was set at £8.6 million which equates to around 0.8% of gross expenditure.

Materiality for the Pension Fund was set at £10.0 million which equates to around 0.7% 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 £0.50 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.

## Appendix 3

# Audit differences

### Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate.

One audit difference was identified during the course of the audit that has not been adjusted for. This relates to the double counting of the valuation of a School at the 31 March 2018. Details are shown below:

Unadjusted audit differences (£m)				
No.	Detail	CIES Dr/(cr)	BS Dr/(cr)	Comments
1	CR Property, plant and equipment	-	(£2.69m)	A School building was double counted in the year end PPE balance. The Council has not amended the financial statements on the grounds the amendment is not material to the financial statements.
	Dr revaluation increases recognised in the revaluation reserve	-	£1.95m	
	Dr revaluation increases recognised in the provision of surpluses	£0.74m		
Total		£0.74m	(£0.74m)	

### Adjusted 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 2017/18 ('the Code') and for consistency within the accounts. These have been amended by management.

## Appendix 4

# Audit independence

### **ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LONDON BOROUGH OF ISLINGTON COUNCIL AND LONDON BOROUGH OF ISLINGTON PENSION FUND**

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

#### **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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. 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 are satisfied that our general procedures support our independence and objectivity.

## Appendix 4

# Audit independence

### Independence and objectivity considerations relating to the provision of non-audit services

#### Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	202,830	202,830
Audit of the Pension Fund	21,000	21,000
<b>Total audit services</b>	<b>223,830</b>	<b>223,830</b>
Allowable non-audit services	-	-
Audit related assurance services	6,000	6,000
Mandatory assurance services	24,975	24,975
<b>Total Non Audit Services</b>	<b>30,975</b>	<b>30,975</b>

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.1:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole. We confirm that all non-audit services were approved by the audit committee.



## Appendix 4

# Audit independence

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
<b>Audit-related assurance services</b>				
Grant Certification – Teachers Pensions Return and Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	6,000	6,000
<b>Mandatory assurance services</b>				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	24,975	24,975

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

### *Contingent fees*

We have not agreed any contingent fees with the Authority.

## Appendix 4

# Audit independence

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

### Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

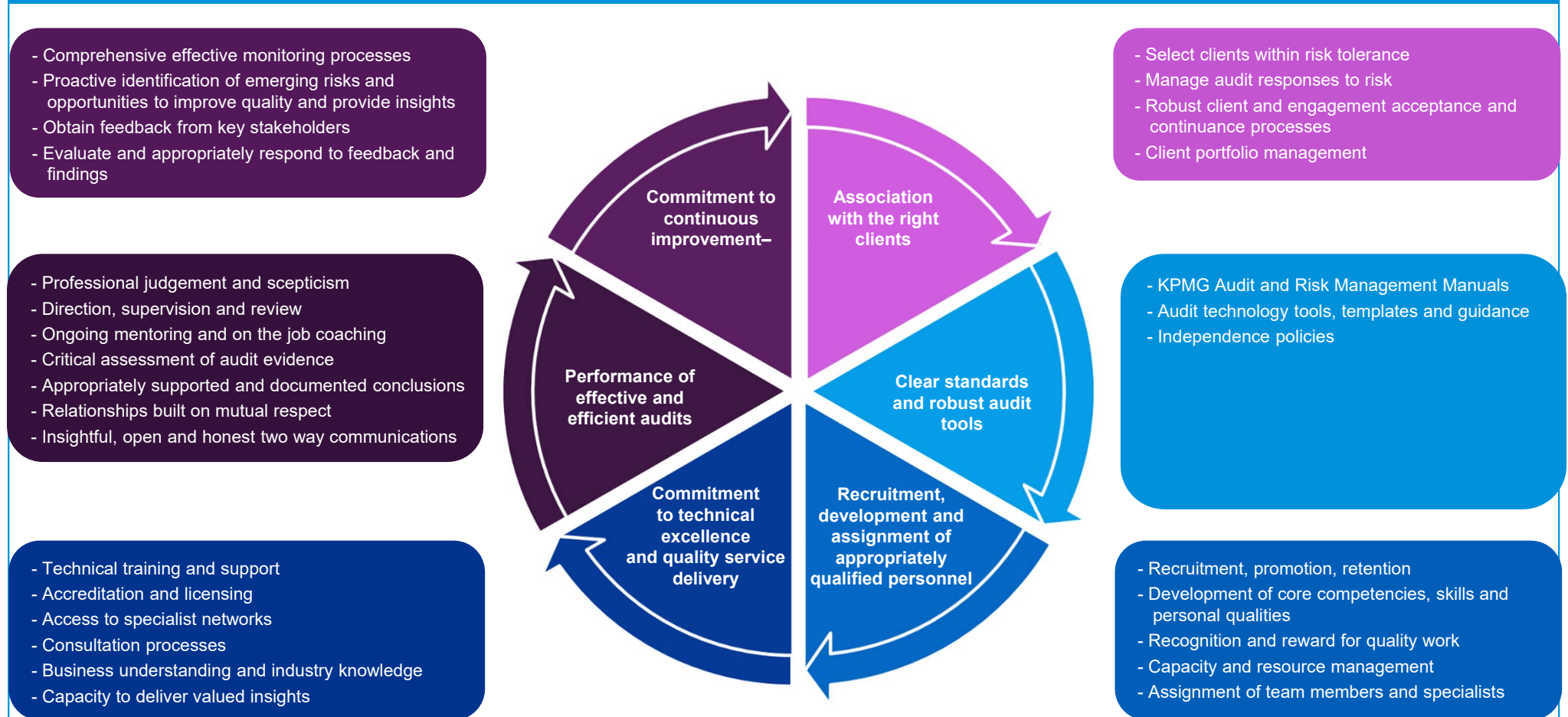
**KPMG LLP**



## 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





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