KPMG

External Audit Report 2015/16

London Borough of Islington

—

September 2016

Contents

The contents at KPMG in connection with this report are:

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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.

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Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at London Borough of Islington ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during August 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- Assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

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

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Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.
Audit adjustments	Our audits of the Authority's financial statements and those of the Pension Fund did not identify any significant adjustments to figures in the principal financial statements. As with previous years, the Authority has produced high quality draft financial statements and working papers and ensured staff are available to answer audit questions and resolve questions on a timely basis. There were a number of minor presentational adjustments that the Authority and Fund have processed during the audit.
Key financial statements audit risks	We identified the following 'significant' financial statements audit risks areas in our *2015/16 External audit plan* issued in March 2016 in relation to the Authority: — Fair value of Property, Plant and Equipment — Actuarial valuation - pension assets and liabilities We also identified an 'area of focus' in relation to the Pension Fund in relation to Investments. We have worked with officers throughout the year to discuss these key risks and our detailed findings are reported in section 3 of this report.
Accounts production and audit process	The Authority published a draft set of accounts on its website on 30 June 2016 in line with the 30 June DCLG deadline. However this version did not include the draft pension fund accounts although these were provided in advance of our audit. In future years the Authority should make sure it publishes a complete set of draft accounts including the pension fund. As with the previous year, working papers to support the accounts were provided in a timely manner and officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. As in previous years, we will debrief with the finance team to share views on the final accounts audit. This may lead to efficiencies in the 2016/17 audit process and assist the Council for planning for the 2017/18 audit when the audit deadline is brought forward to 31 July 2018.

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Headlines (cont.)

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

VFM conclusion and risk areas	We identified the following VFM risks in our *2015/16 External audit plan* issued in March 2016. — Financial Resilience: Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government whilst having to maintain a statutory and quality level of services to local residents — Better Care Fund: The Better Care Fund was set up by Government to encourage joint work across health and adult social care to ensure local people receive better care. Joint arrangements have been established with Islington CCG to administer the local Better Care Fund. As the arrangements are new, crossing the health and social care boundary with organisations who have different legal structures there is a risk that the governance and accounting arrangements may not be well developed to manage this partnership arrangement appropriately. We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.
Completion	At the date of this report our audit of the financial statements is complete with the following items to finalise: — Review of updated statement of accounts; — Receipt of all supporting documentation for section 106 income and receipts in advance; — Review of Pension Fund Annual Report; — Testing of the Whole of Government Accounts return; and — Minor outstanding audit queries. 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 Authority on 5 September 2016. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

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Headlines (cont.)

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

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.

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Proposed opinion and audit differences

Our audit of the Authority's financial statements did not identify any significant adjustments to figures in the principal financial statements.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 20 September 2016.

Audit differences – financial statements

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on the change to materiality from our External Audit Plan, presented to you in March 2016) level for this year's audit was set at £10.5 million. Audit differences below £525,000 are not considered significant.

Our audit did not identify any significant audit differences. We identified some amendments relating to the classification of notes supporting the primary statements and other supporting notes. All of these have been amended by management.

Audit differences – pension fund

Our audit of the Fund did not identify any material misstatements. For the audit of the Fund we used a lower materiality level of £10 million. Audit differences below £500,000 are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 20 September 2016.

Our audit did not identify any significant audit differences. We identified some presentational adjustments and these have been adjusted by management.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

— It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Pension Fund Annual Report

We have not yet reviewed the Pension Fund Annual Report to confirm that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

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Significant audit risks and areas of focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan, presented to you in March 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Significant Risk 1

— Fair value of Property, Plant and Equipment

In 2014/15 the Authority reported Property, Plant and Equipment of £3,711 million of which £3,465 million related to land and buildings, including Council dwellings. Local authorities exercise 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 an area of significant audit risk.

— Findings

Our audit procedures considered the expertise and assumptions used by the valuer during both the initial revaluation exercise and the subsequent detailed five yearly valuation. We did not identify any significant issues with valuations.

Significant Risk 2

— Actuarial valuation - pension assets and liabilities

There is an inherent valuation estimate in respect of the Council's defined benefit liability. Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement. This risk affects only the Fund.

— Findings

We reviewed the work of the actuary and considered them as a specialist. Our audit work also reviewed the assumptions applied by the actuary and as a result of our testing we did not identify any issues in relation to the actuarial valuation.

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Significant audit risks and areas of focus (cont.)

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

Area of focus 1

— Pension Funds area of focus - Investments

The Pension Fund held £1,087 million of investments at 31 March 2015. Some of these were unquoted investments which management valued at the year end using unaudited accounts. This risk affects only the Pension Fund.

— Findings

Our audit work considered the unquoted investments which management have valued at the year end using the unaudited accounts. We did not identify any issues in relation to this area during our audit testing.

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Significant audit risks and areas of focus (cont.)

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were management override of controls and the fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

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Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we stated that we do not consider this to be a significant risk for the majority of the Council's income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for Council Tax, Business Rates, Housing rents and annual central Government grants and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we do consider it for income relating to s106 monies, fees and grants that span financial years.

Our audit work therefore considered the fraud risk of revenue recognition for income relating to s106 monies, fees and grants that span financial years. We did not identify any issues in relation to this significant risk.

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 audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to either the Authority of Pension Fund audits.

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.

There are no matters arising from this work that we need to bring to your attention.

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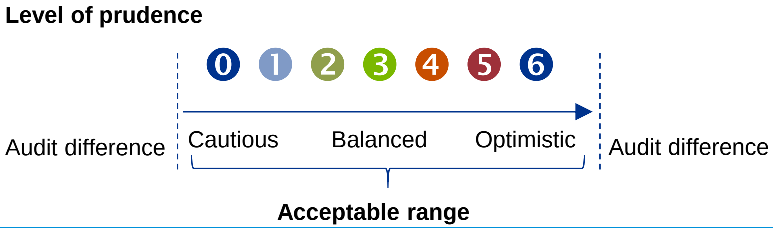
Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions	3	3	£17.9 million *(PY: £18.1 million)*	The balance has remained steady, although there has been an increase in appeals on NNDR offset by a reduction in the insurance provision. We consider the related disclosures to be proportionate, and provisions have been recognised on a consistent basis.
Property, Plant and Equipment	3	3	£3,760.9 million *(PY: £3,710.5 million)*	The Council has followed the valuation and asset lives supplied by the valuers for other land and buildings and Council dwellings. We have not identified any issues with the valuations used in the post audit accounts.
Pension Liability	3	3	£570.3 million *(PY: £643.3 million)*	We have 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.
Debtors	2	3	£54.7 million *(PY: £62.6 million)*	We have 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.
Creditors including accruals	3	3	£91.6 million *(PY: £95.3 million)*	We consider the related disclosures to be proportionate. The main creditors are consistent with the prior year and in line with our expectations.

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Accounts production and audit process

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

Element	Commentary
Accounting practices and financial reporting	We consider that accounting practices are appropriate.
Completeness of draft accounts	The Authority published a complete draft set of accounts on its website on 30 June 2016 in line with the 30 June DCLG deadline.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in April 2016 and discussed with the Chief Accountant, set out our working paper requirements for the audit. The quality of working papers provided was timely and good and met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved audit queries in a reasonable time.
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.

Internal audit

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

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Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of London Borough of Islington and the associated Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and London Borough of Islington and the associated Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also 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 a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Corporate Director of Finance and Resources for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

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 2015/16 financial statements.

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VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Background

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.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

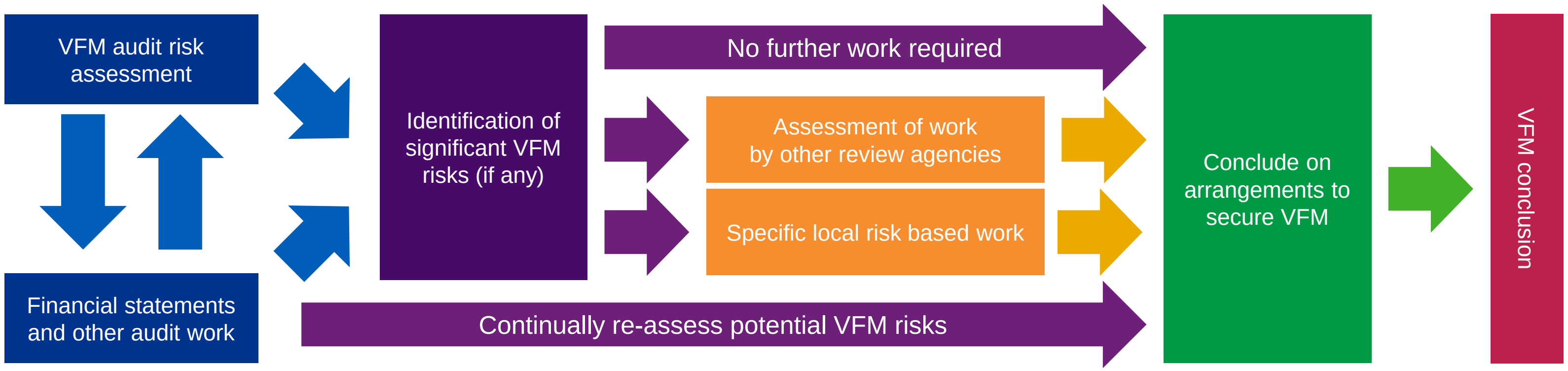
Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓	✓	✓



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Specific VFM Risks

We have identified two specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to these risk areas.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Financial resilience	Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government whilst having to maintain a statutory and quality level of services to local residents. This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.	Despite ongoing cost pressures in areas such as temporary accommodation and adult social care, the Authority delivered to its 2015/16 budget. The budget for 2016/17 was set, with a 3.99% increase in Council Tax. At the budget setting meeting in February 2016, initial plans and projections for the 2017/18 budget were presented with £14 million of the estimated £22 million of saving required already identified and approved. Our review of the work completed by inspectorates and agencies did not identify any issues of concern. The Authority's approach to financial planning and financial resilience remains sound.

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Specific VFM Risks (cont.)

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Better Care Fund	The Better Care Fund was set up by Government to encourage joint work across health and adult social care to ensure local people receive better care. Joint arrangements have been established with NHS Islington CCG to administer the local Better Care Fund. As the arrangements are new, crossing the health and social care boundary with organisations who have different legal structures there is a risk that the governance and accounting arrangements may not be well developed to manage this partnership arrangement appropriately. This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.	During the audit we reviewed the arrangements in place for the Better Care Fund (BCF) and found that the joint arrangements have been operating for the 2015/16 financial year. Draft Plans are presented to the Health and Wellbeing Board prior to submission. A section 75 pooled budget agreement is in place with NHS Islington CCG and delivery against this is monitored monthly by the BCF Executive Steering Group which includes senior officers from the Authority. There are clear leads over who is responsible for delivering individual projects. Reports against progress and ongoing priority areas are presented to the Health and Wellbeing Board at regular intervals. The Authority has disclosed full details in note 16 of the financial statements.

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Appendices

Appendix one

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations					
1	***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.	2	***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.	3	***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.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	**Preparing and publishing Pension Fund statements** We received the draft pension fund accounts before the start of the audit 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

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Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We have reported all audit differences over £0.525 million for the Authority's accounts and £0.5 million for the Pension Fund, to the Audit Committee.

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 and 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 2015/16 ('the Code') and for consistency within the accounts. These have been amended by management.

Uncorrected audit differences

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

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Materiality and reporting of audit differences

For 2015/16 our materiality is £10.5 million for the Authority's accounts. For the Pension Fund it is £10 million.

We have reported all audit differences over £0.525 million for the Authority's accounts and £0.5 million for the Pension Fund, to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

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

Our materiality figure is limited by the level of unearmarked General Fund balances held by the Authority. As these fell to £10.7m at 31 March 2016, we reduced the materiality level from the planning level (£13m) reported in our External Audit Plan 2015/16, presented to you in March 2016.

Materiality for the Authority's accounts was set at £10.5 million which equates to around 0.9 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision, set at £7.9 million for 2015/16.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, 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 £0.525 million for the Authority.

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.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £10 million which is approximately 1 percent of net assets. We design our procedures to detect errors at a lower level of precision, set at £7.5 million for 2015/16.

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

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Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance 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 our independence and the objectivity of the Engagement Lead and the audit team.

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Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

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All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of London Borough of Islington and Islington Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and London Borough of Islington and Islington Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

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Appendix four

Audit Independence

Audit Fees

Our scale fee for the audit was £202,630 plus VAT (£270,440 in 2014/15) as set by Public Sector Audit Appointments (PSAA). This fee was in line with that highlighted within our audit plan presented to the Audit Committee in March 2016. Our scale fee for certification for Housing Benefit Subsidy was £24,912 plus VAT and fees for the Teachers Pension Return and Pooling Housing Capital Receipts were £6,000 in total, plus VAT (£6,000 in 2014/15).

The scale fee for the Pension fund was £21,000 (2014/15 £21,000) plus VAT. The fee is in line with that highlighted in our audit plan presented by the Audit Committee in March 2015.

Non-audit services

We have not provided any non-audit services during the 2015/16 year.

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