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# Annual Audit Letter 2014/15

London Borough of Barking and  
Dagenham

October 2015

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies* summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Philip Johnstone, 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, Trevor Rees (on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@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 3HZ.

This report summarises the key findings from our 2014/15 audit of London Borough of Barking and Dagenham (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2014/15 financial statements and the 2014/15 VFM conclusion.

<p><b>VFM conclusion</b></p>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2014/15 on 30 September 2015. This means we are satisfied that that Authority had proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at the Authority's financial governance, financial planning and financial control processes, as well as the arrangements for prioritising resources and improving efficiency and productivity.</p>
<p><b>Audit opinion</b></p>	<p>We issued an unqualified opinion on the Authority's financial statements on 30 September 2015. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund and the Authority's Group, which consists of the Authority itself and Barking and Dagenham Reside Ltd and the Elevate Partnership.</p>
<p><b>Financial statements audit</b></p>	<p><b>Audit Adjustments</b></p> <p>Our audit identified one material audit adjustment within the primary statements with a total value of £32.8 million. The impact of this adjustment was to decrease the value of Council Dwelling stock as of 31 March 2015 by £32.8 million. There is no impact on the general fund balance.</p> <p>2014-15 was the first year when the property assets associated with the Authority's wholly owned subsidiary 'Barking and Dagenham Reside Ltd ('Reside') were required to be accounted for. This consists of 477 properties with a year end value of £95 million. At the point of creating Reside, the Council obtained professional accounting advice on the treatment of the vehicle and the assets within the authority's accounts and this was followed by the finance team for 2014/15. Discussions through the course of the 2014/15 audit between the Council and KPMG and review of the relevant accounting standards confirmed that the assets, loan liability and associated transactions should be accounted for directly within the Authority's accounts. The accounts of Reside and the Authority were amended to reflect this.</p> <p>We also identified five misstatements within the footnotes to the statements with individual values over our trivial reporting threshold, but which are not material to the accounts, and a total of four audit adjustments within politically sensitive disclosures, an area where our materiality threshold for triviality was reduced to £1,000.</p> <p>The Authority adjusted all of these items in the final set of financial statements.</p> <p><b>Accounts production and audit process</b></p> <p>We noted a decrease in the quality of the Authority's financial reporting processes and supporting work papers compared to the prior year, as evidenced by the number of audit adjustments and presentational errors identified over the course of our audit. We do however note that due to a reduction in staff numbers and the reallocation of duties that it is sometimes difficult to maintain the high standards that we have seen have previously. Once the audit is completed we will be discussing with key finance staff the lessons from this year's audit to return the to the high standards that we have seen over the past two years.</p>

We provide a summary of our key recommendations in Appendix 1.

All the issues in this Annual Audit Letter have been previously reported.

Annual Governance Statement	We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.
Pension fund audit	There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements. However we were unable to gain assurance through our procedures over the completeness and accuracy of the CPID data included in the pack. This was reported in our submitted Assurance Statement.
High priority recommendations	We raised <b>one</b> high priority recommendation as a result of our 2014/15 audit work. This is detailed in Appendix 1 together with the action plan agreed by management. The recommendation concerned the timely preparation of monthly bank reconciliations.  We will formally follow up these recommendations as part of our 2015/16 work.
Certificate	We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by a local authority elector relating to 2013/14. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.
Audit fee	Our fee for 2014/15 was £221,000, excluding VAT, this compares to a fee of £219,000 in the prior year. Further detail is contained in Appendix 2.

## Appendix 1: Key issues and recommendations

This appendix summarises the high priority recommendations that we identified during our 2014/15 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports.

We are holding a debrief meeting with key officers on 9 November 2015 to discuss the learning points from this year's audit.

No.	Issue and recommendation	Management response / responsible officer / due date
1	<p><b>Preparation of Monthly Bank Reconciliations</b></p> <p>During our review of cash processes we noted that monthly bank reconciliations for the Council's main bank account ceased to be prepared and reviewed on a regular basis following the Oracle upgrade from R11 to R12 in July 2014. In our testwork over the year end bank reconciliation, we noted that there was a £113k unreconciled difference. In addition, £1.4 million in reconciling items identified by the Authority had not been tied in detail back to bank statements at the time of the reconciliation.</p> <p>It has been noted that the Authority implemented a manual solution to ensure that the year end bank reconciliation had been prepared and reviewed. Substantive audit procedures undertaken to test this reconciliation have not identified and issues and we have obtained the assurance required that the year end cash balance is correct disclosed in the financial statements.</p> <p><b>Risk</b></p> <p>We view bank reconciliations as a key control that the Authority must consistently prepare and review on a regular and timely basis. If this control is not performed regularly, there is a risk that the Council will not identify unreconciling items until the year end and that the cash balance will not be accurately accounted for.</p> <p><b>Recommendation</b></p> <p>We recommend that the Authority continues to investigate the reporting functionality of the Oracle R12 system to enable a monthly bank reconciliation to be prepared for the main bank account so that all items are reconciled from the bank statement to the general ledger at month- and year-end.</p>	<p><b>Response:</b></p> <p><b>Agreed</b></p> <p>The process to move to monthly bank reconciliation has been implemented and will be completed by 30 September 2015 for bank reconciliations relating to 2015/16.</p> <p>Monthly bank reconciliations will be completed for the period July 2014 to March 2015 by 31 December 2015.</p> <p><b>Responsible Officer:</b> David Dickinson</p> <p><b>Due Date:</b></p> <p>31 December 2015</p>

### Follow up of previous recommendations

As part of our audit work we followed up on the Authority's progress against previous audit recommendations. We reported three recommendations in the prior year, two of which have been either fully implemented or superseded, and one, relating to ensuring compliance with the Pension Fund statement of investment principles, has been re-raised.

**This appendix provides information on our final fees for the 2014/15 audit.**

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2014/15 planned audit fee.

#### **External audit**

Our final fee for the 2014/15 audit of the Authority was £242,300, including our audit of the Pension Fund, Group accounts and Value for Money conclusion. This is in line with the planned fee.

#### **Certification of grants and returns**

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2016.

#### **Other services**

We are yet to charge any additional fees for other services. However we are anticipating that we will charge a further £7,000 for additional audit-related services for the certification of the Teachers' Pension and Pooling of Housing Capital Receipts grant claims which are outside of Public Sector Audit Appointment's certification regime.

We will also be charging a further £13,000 (2013/14: £13,000) for the audit of the Barking and Dagenham Reside Ltd accounts. Due to the Reside accounts being company accounts the deadline for finalisation of the audit is nine months after the year end (31 March 2015). This audit has been commenced and will be finalised before the December deadline.

We have previously charged the Authority £30,000 for tax advice. Any further charges for associated work are capped at £10,000. This work was not related to our responsibilities under the *Code of Audit Practice*.



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