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# Report to those charged with governance (ISA 260) 2012/13

London Borough of Barking and Dagenham

August 2013



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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Philip Johnstone, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.

## This report summarises:

- the key issues identified during our audit of London Borough of Barking and Dagenham Council (the Authority's) financial statements for the year ended 31 March 2013; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

## Financial statements

Our *External Audit Plan 2012/13* presented to you in February 2013 set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during March 2013 (interim audit) and July / August 2013 (year end audit). We carried out the following work:

Control Evaluation	<ul style="list-style-type: none"> <li>■ Evaluate and test selected controls over key financial systems</li> <li>■ Review internal audit function</li> <li>■ Review accounts production process</li> <li>■ Review progress on critical accounting matters</li> </ul>
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Substantive Procedures	<ul style="list-style-type: none"> <li>■ Planning and performing substantive audit procedures.</li> <li>■ Concluding on critical accounting matters.</li> <li>■ Identifying audit adjustments.</li> <li>■ Reviewing the Annual Governance Statement.</li> </ul>
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We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion	<ul style="list-style-type: none"> <li>■ Declaring our independence and objectivity.</li> <li>■ Obtaining management representations.</li> <li>■ Reporting matters of governance interest.</li> <li>■ Forming our audit opinion.</li> </ul>
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## VFM conclusion

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 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, the Audit Commission, 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 the key findings from our audit work in relation to the 2012/13 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

## Acknowledgements

We would like to take this opportunity to thank Jonathan Bunt, Steve Pearson and their team for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<b>Proposed audit opinion</b>	We anticipate issuing an unqualified audit opinion by 30 September 2013. We will also report that the wording of your Annual Governance Statement accords with our understanding.
<b>Audit adjustments</b>	<p>We are pleased to report that our audit of your financial statements did not identify any material adjustments. The Authority made a small number of non-trivial adjustments after the Accounts were submitted to audit. There was no impact on the General Fund.</p> <p>For completeness, we have included a list of all non-trivial audit differences in section 3. The Council have agreed that all of these will be adjusted.</p>
<b>Accounts production and audit process</b>	<p>We understand that in the past, the Authority has had some issues around the audit process. However, we feel that the Authority has good processes in place for the production of the accounts and supporting working papers were of a very high standard. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed all the issues appropriately.</p>
<b>Control environment</b>	<p>The Authority's organisational and IT control environment is effective, and controls over the key financial systems are sound. We have raised a number of recommendations arising from our work, which are summarised in Appendix 1. None of these are considered high priority</p> <p>We are satisfied that internal audit are compliant with the Code of Practice for Internal Audit in Local Government and have been able to place reliance on their work where this was relevant to our work.</p>
<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter and we will continue to review for any subsequent events up to the date of signing.</p> <p>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.</p>
<b>VFM conclusion</b>	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 2013.

We have identified no issues in the course of the audit that are considered to be material.

The wording of your Annual Governance Statement accords with our understanding.

#### Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2013.

#### Audit differences

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.

We did not identify any material misstatements.

Our audit identified small number audit differences, which are summarised in the table below. There was no impact on the prime financial statements or the out-turn for the year

Area	Impact
<b>PFI Payments</b>	For both PFI schemes, the Authority had used the incorrect inflation rate in the calculated the long term payments.
<b>Investment property</b>	<p>During the 2012/13 year, the Authority undertook a reconciliation of assets to ensure their correct classification. It was noted that in 2011/12, the Authority had double counted £5.8m of assets in both Investment Property and Council Dwellings. This does not require a prior period adjustment to the investment property opening balance under IAS 8 as the amount involved is not material.</p> <p>To correct this error from the prior year accounts, we accept the treatment of accounting for this as a disposal. However, have raised a recommendation within Appendix 1, around the disclosure of the nature of the adjustment in the notes to the accounts.</p>

Area	Impact
<b>Exit package</b>	The Authority had included four exit packages agreed and paid in 2013/14 within this disclosure. The net impact was to reduce the exit packages note by £66,154. This had been correctly accounted for within the net cost of services and so had no impact on the financial out-turn.
<b>Senior officer remuneration &amp; Pensions</b>	<p>The remaining two adjustments were in relation to the disclosures of pensions and senior officer remuneration.</p> <p>Minor adjustments were made to the pensions note in relation to the rate of inflation and the experience gains and losses on plan liabilities.</p> <p>Adjustments were made to the senior office remuneration to include all high earners.</p>

It is our understanding that these will be adjusted in the final version of the financial statements.

There is no net impact on the General Fund as a result of audit adjustments.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2012/13* ('the Code'). We understand that the Authority will be addressing these.

The Authority has good processes in place for the production of the accounts and good quality supporting working papers.

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

#### 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.

#### 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.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	<p>The Authority has good financial reporting arrangements in place. There is scope to improve this further through documentation of some year end reconciliations to ensure completeness of PPE and payroll and closer liaison with schools, as part of the accounts closure process. We have raised recommendations in relation to this within Appendix 1.</p> <p>We consider that accounting practices are appropriate.</p>
<b>Completeness of draft accounts</b>	<p>We received a complete set of draft accounts on 28 June 2013. Only minor amendments were subsequently made.</p>

Element	Commentary
<b>Quality of supporting working papers</b>	<p>Our <i>Accounts Audit Protocol</i>, which we issued in April and discussed with Group Accountant - Central Accounting Team, Corporate Finance, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided met the standards specified in our <i>Accounts Audit Protocol</i>.</p>
<b>Critical accounting matters (key audit risks)</b>	<p>We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.</p>
<b>Response to audit queries</b>	<p>Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p>
<b>Group audit</b>	<p>To gain assurance over the Authority's group accounts, we placed reliance on work completed by PricewaterhouseCoopers on the financial statements of Elevate LLP and have reviewed the consolidation entries within the Group Accounts.</p> <p>There are no specific matters to report pertaining to the group audit.</p>

**The Authority's organisation and IT control environment is effective, and controls over the key financial systems are sound.**

**We are satisfied that internal audit are compliant with the Code of Practice for Internal Audit in Local Government and have been able to place reliance on their work where this was relevant to our work.**

During March 2013 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

**Organisational and IT control environment**

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

The Authority also relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

We found that your organisational and IT control environment is effective overall.

We identified a minor area for further improvement. Our testing of the IT policy in place at the Authority was last updated in 2008. We have raised a recommendation in Appendix 1 with regards to this.

**Review of Internal Audit**

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work.

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place full reliance on

internal audit's work on the payroll system.

Based on our assessment of their files, attendance at Audit Committee and communications during the course of the year, internal audit continue to comply with the Code of Practice for Internal Audit in Local Government .

Since April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. We understand that Deloitte is compliant with these PSIAS.

**Controls over key financial systems**

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work of your internal auditors, and our own work on controls over the year end process, the controls over the financial systems are satisfactory, however, we noted some minor weaknesses in respect of the reconciliation to the general ledger for payroll and fixed assets. Recommendations are included in Appendix 1.

**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 Barking and Dagenham Council for the year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and London Borough of Barking and Dagenham Council, 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 Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 2 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 Director of Finance a draft of which is reproduced in Appendix 3. 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'.

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the Authority's 2012/13 financial statements.



**Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

#### Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority’s financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly. Our approach was set out in more detail in our *External Audit Plan 2012/13*.

#### Risk assessment

Our initial risk assessment identified the following key business risk which are also relevant to our VFM conclusion:

The Authority has delivered its 2012/13 budget in overall terms. This includes a savings programme totalling £19 million, which have been delivered by the Council.

The Authority is currently projecting that another £17 million in savings will need to be achieved during 2013/14 and a further £8 million by 2014/15 to address reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care, Children’s Services and Housing and Finance, it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.

In conjunction with our VFM work we critically assess the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan takes into account the potential funding reductions and financial impact of changes in legislation.

We reviewed how the Council is planning and managing its savings plans.

We are satisfied that in all cases, sufficient work in relation to these risks had been carried out by the Authority, the Audit Commission, other inspectorates or review agencies to mitigate the audit risks for our VFM conclusion. We concluded that we did not need to carry out any specific additional work ourselves.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

#### Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Appendix 1: Key issues and recommendations

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

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<p><b>1</b> <b>Priority one:</b> 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.</p>	<p><b>2</b> <b>Priority two:</b> 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.</p>	<p><b>3</b> <b>Priority three:</b> 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.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>2</b>	<p><b>Payroll reconciliation documentation</b></p> <p>The Authority has not fully documented its payroll reconciliation procedures for its main operating accounts as of year end.</p> <p>We were able to satisfy ourselves of no material misstatement within the accounts, however, there were some unreconciled items which totalled £1.1m where the Authority could not easily obtain sufficient explanations.</p> <p>We recommend that such documentation is held by the Authority.</p>	<p><b>Accepted</b></p> <p><b>Management response:</b></p> <p>The council completes monthly payroll reconciliations to ensure that the payroll control accounts are accurate, and that all discrepancies are identified and resolved. This gives us sufficient assurance that the systems and financial controls relating to the payroll sub-ledger and the general ledger are effective.</p> <p>It is agreed however that it would be beneficial to put in place additional procedures to document reconciliations at year end directly between the payroll sub-ledger system and the general ledger to prove that payroll expenditure is correctly recorded in the general ledger. This will provide greater clarity and assurance on the robustness of the systems and financial controls in place .</p> <p><b>Responsible officer:</b> Group Accountant – Financial Reporting</p> <p><b>Due date:</b> 30th April 2014</p>

## Appendix 1: Key issues and recommendations

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

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	2	<p><b>Timelines of communication with Schools</b></p> <p>Our testing on the exit package disclosure within the accounts identified that there was significant delay in correspondence between the Authority and the Schools. Consequently, the 2012/13 exit package note included agreed redundancies in the previous reporting year due to a delay in communication in 2012.</p> <p>We recommend the Authority contacts schools as part of the accounts closure process, to obtain confirmations of the agreed redundancies in year to ensure completeness of the disclosure for the reporting year's accounts. Where information is not provided by the schools in a timely manner, we recommend that the Authority emphasis the importance of this information to the schools to ensure all information is received within two months of year end.</p>	<p><b>Accepted</b></p> <p><b>Management response:</b> We currently contact schools as part of the accounts closure process. For 12/13 we started the communication with schools in January 2013. We have had issues around delivery to the agreed timescales mainly due to Easter holidays, but Schools were aware in advance of the information they needed to provide.</p> <p>Going forward, the year-end timetable will now include a detail list of all information required from schools and by when. This will be discussed regularly with Head Teachers to ensure the relevant information is available when required.</p> <p><b>Responsible officer:</b> Group Accountant – Children Services</p> <p><b>Due date:</b> 30th April 2014</p>
3	3	<p><b>Journals</b></p> <p>Our testing identified one journal that was posted to the general ledger prior to authorisation, although we note that it was retrospectively reviewed.</p> <p>Retrospective review or lack of review of journals presents the risk that inappropriate journals are posted to the general ledger, resulting in potentially erroneous financial reporting.</p> <p>Management should ensure that all staff are aware of the required procedures for the authorisation and posting of journals, and that all authorised journal sheets are maintained on file.</p>	<p><b>Accepted</b></p> <p><b>Management response:</b> We are currently implementing a new version of Oracle and this will enforce automated approval of journals before posting.</p> <p><b>Responsible officer:</b> Group Accountant – Systems and Improvement</p> <p><b>Due date:</b> 4<sup>th</sup> November 2013</p>

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

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
4	3	<p><b>IT Policies</b></p> <p>As part of our assessment of the Authority's IT environment, we have identified that the Authority's IT policies were last updated in June 2008.</p> <p>We recommend that the Authority's IT policies should be reviewed and updated in order to ensure that they are relevant and current.</p>	<p><b>Accepted</b></p> <p><b>Management response:</b> Plans are in place to review all IT policies by the end of the financial year. Appropriate approvals will be sought for any proposed changes that may arise from this review.</p> <p><b>Responsible officer:</b> ICT Client Officer</p> <p><b>Due date:</b> 31 March 2014</p>
5	3	<p><b>Investment property disclosure</b></p> <p>During the 2012/13 year, the Authority undertook a reconciliation of assets to ensure their correct classification. It was noted that in 2011/12, the Authority had double counted £5.8m of assets in both Investment Property and Council Dwellings. This does not require a prior period adjustment to the investment property opening balance under IAS 8 as the amount involved is not material.</p> <p>To correct this error from the prior year accounts, we accept the treatment of accounting for this as a disposal. However, we recommend that the Authority add a footnote to the note within the account to fully disclose the nature of the adjustment.</p>	<p><b>Accepted</b></p> <p><b>Management response:</b> We have included a disclosure note in the 2012/13 accounts as recommended.</p> <p><b>Responsible officer:</b> Principal Accountant – Capital</p> <p><b>Due date:</b> 28<sup>th</sup> August 2013</p>

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.**

### Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

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 Audit Commission’s Standing guidance for local government auditors (Audit Commission 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. Audit Commission 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 Public Accounts and Audit Select 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 Audit Partner and the audit team.

### 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.

**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.**

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.

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.

During 2013, KPMG LLP Public Sector Audit had two secondees from the Authority for a period of eight to ten weeks. KPMG had in place the following safeguards to prevent a risk to ethics and independence as follows:

- Neither secondees worked on our audit of the London Borough of Barking and Dagenham or neighbouring London Boroughs;
- Neither secondees were placed on KPMG teams with members of our London Borough of Barking and Dagenham audit team; and
- Neither secondees were granted access to files relating to our audit

of the London Borough of Barking and Dagenham.

#### **Auditor declaration**

In relation to the audit of the financial statements of London Borough of Barking and Dagenham Council for the financial year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and London Borough of Barking and Dagenham Council, 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 Audit Commission's requirements in relation to independence and objectivity.

**We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.**

**The wording for these representations is prescribed by auditing standards.**

**We require a signed copy of your management representations before we issue our audit opinion.**

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of London Borough of Barking and Dagenham Council (“the Authority”), for the year ended 31 March 2013, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of London Borough of Barking and Dagenham and its Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
- ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

### Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
  - give a true and fair view of the financial position of the Authority and the Group as at 31 March 2013 and of the Authority’s and the Group’s expenditure and income for the year then ended; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 require adjustment or disclosure have been adjusted or disclosed.
4. There have been no amendments made to the audit financial accounts which are of a material nature and there has been no impact on the general fund.

### Information provided

5. The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority and Group from whom you determined it necessary to obtain audit evidence.

**We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.**

**The wording for these representations is prescribed by auditing standards.**

**We require a signed copy of your management representations before we issue our audit opinion.**

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

8. The Authority has disclosed to you all information in relation to:

- a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements; and

- b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

11. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that:
  - are statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - are funded or unfunded; and
  - are approved or unapproved,

have been identified and properly accounted for; and

- a) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Public Accounts and Select Committee on 11 September 2013.

Yours faithfully,

[Chair of the Public Accounts and Audit Select Committee], [Chief Financial Officer]





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