



Annual Audit Letter 2016/17

**London Borough of Barking and
Dagenham Council**

—
October 2017



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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. Public Sector Audit Appointments 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).

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

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

This Annual Audit Letter summarises the outcome from our audit work at London Borough of Barking and Dagenham in relation to the 2016/17 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

VFM conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 29 September 2017. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.
VFM risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant matters:</p> <ul style="list-style-type: none"> — Budget overruns in the Children's Services department: This was identified as a risk because the Authority has delivered its overall planned budget position by compensating for Children's Services overspends with underspends in other departments. Recurring budget overspends is an indicator of poor financial planning. We reviewed key reports and papers presented Council meetings including the report "Addressing financial pressures in Children's Care and Support –the Children's Social Care Ambition and Finance Efficiency (SAFE) programme", Medium Term Financial Strategy, papers of the SAFE programme Board and interviewed key members of staff. We found that that steps had been taken to reduce the net overspend from £5m in 2015/16 to £1.8m in 2016/17 and has taken steps to actively improve performance including achieving a breakeven position in 2017/18; and — Redundancy programme: The statement of accounts discloses 286 exit packages at a total cost of £8.2m. There is a risk that the governance process for the approval of these redundancies was not robust. We obtained documentation for the 288 exit packages disclosed in the statement of accounts and interviewed key members of staff. We found key oversight in place through a redundancy panel. We did raise a medium level recommendation about keeping appropriate records from this meeting. There is also sign off by department directors and a workforce governance group to oversee departmental staffing.
Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 29 September 2017. 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.
Financial statements audit	<p>There were no unadjusted audit differences identified as part of the audit. Audit differences which were presented to the Public Accounts and Audit Select Committee as unadjusted were subsequently corrected by management. We did identify three audit adjustments to the Authority accounts and a single audit adjustment to the Pension Fund accounts.</p> <p>We had no other significant matters which we were required to report to "those charged with governance". We did ask for specific representations in relation to the valuation of plant, property and equipment and the completeness and existence of material cash and cash equivalents in response to audit adjustments identified.</p>

Section one

Headlines (cont)

We have not issued our certificate to confirm the completion of our audit responsibilities for the 2016/17 audit year. This is due to an ongoing objection to the Authority Accounts in 2016/17. This does not prevent us from issuing our accounts audit opinion.

Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
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. We identified one audit adjustment relating to the wrong version of the pension liability valuation report being used.
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.
High priority recommendations	<p>We raised one high priority recommendations as a result of our 2016/17 audit work. This is detailed in Appendix 1 together with the action plan agreed by management. This related to the completeness of related parties declarations: We identified two Councillors for whom related parties declarations were not obtained.</p> <p>We will formally follow up this recommendation as part of our 2017/18 work.</p>
Certificate	We have received an objection to the Authority's 2016/17 financial statements which we are currently working through. This means that we are not yet able to issue our certificate for 2016/17.
Audit fee	Our fee for 2016/17 was £177,928, this compares to our scale fee set by the PSAA by £165,975, excluding VAT. We agreed a fee variation on 28 September 2017 which is subject to approval by the PSAA for £11,953 for additional work.. This is for additional work required due to errors identified in our audit, relating to the valuation reports of plant, property and equipment, internal recharges with regards to support services and schools and misclassifications of expenditure at schools not using the Authority's accounting system. We charged £7,000 for additional audit-related services for the certification of the Pooling of Capital Receipts grant claim and the Teachers Pension return, which are outside of Public Sector Audit Appointment's certification regime. Prior to our appointment as auditor to the London Borough of Barking and Dagenham we advised the authority on VAT matters, one such area is currently being tested with HMRC and may result in additional work to provide ongoing advice. No fees have been charged in 2016/17. Further detail is contained in Appendix 3.

Appendix 1: Key issues and recommendations

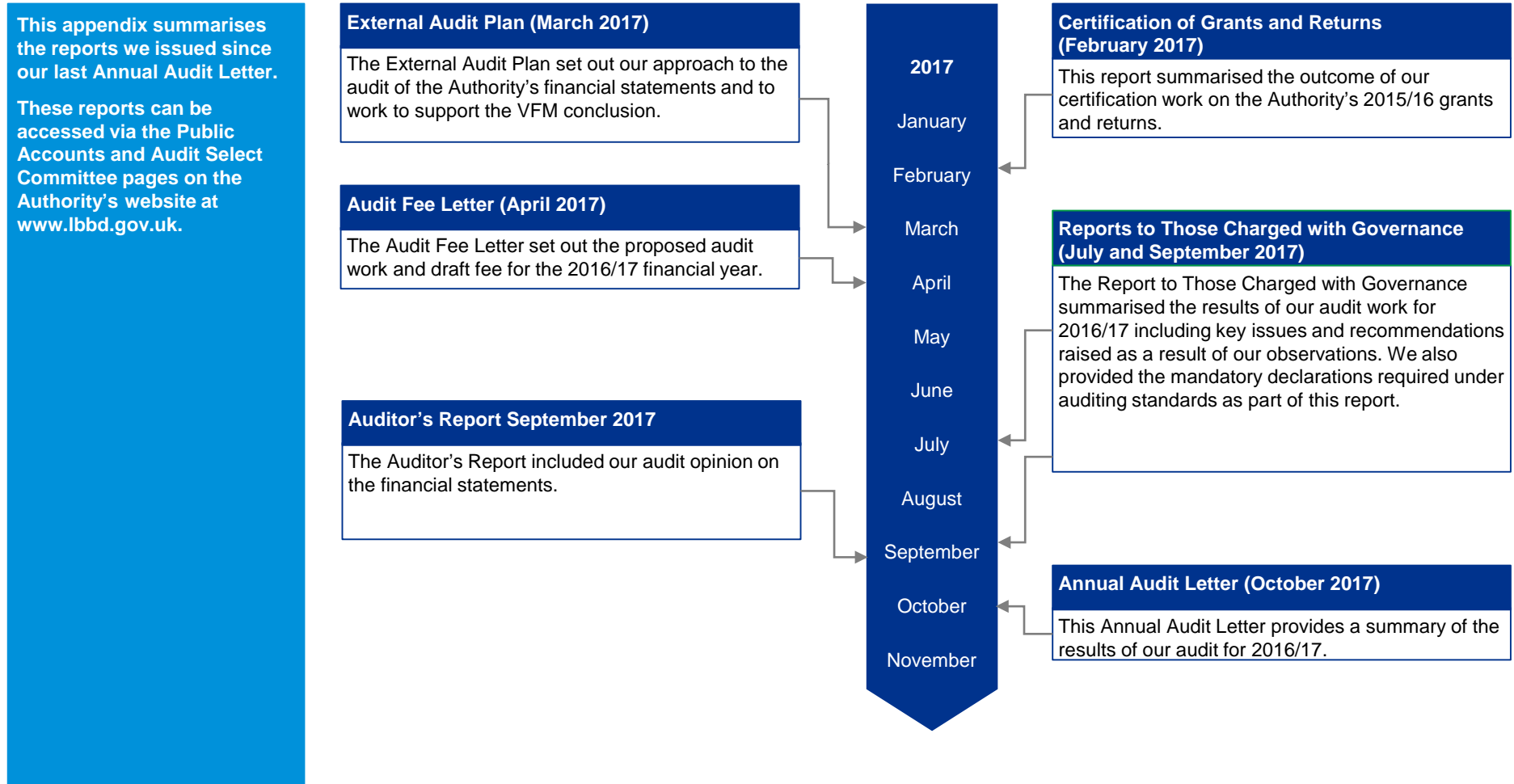
We raised a total of four recommendations through our audit, we have provided additional detail on the high priority recommendation raised.

No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Completeness of related parties declarations</p> <p>The Authority obtains annual related parties declarations from all Councillors and senior officers. This is an important process for ensuring potential conflicts of interest are managed effectively and are disclosed appropriately in the Statement of Accounts.</p> <p>Our audit identified two Councillors for whom related parties declarations were not obtained. There is a risk that actual or perceived conflicts of interest are not identified and managed appropriately.</p> <p>We recommend that the Authority initiates the related parties process earlier in the financial year to enable a complete set of returns.</p>	<p>Agreed</p> <p>Measures have been taken to incorporate declaration of interest process earlier in the year to reflect in the earlier detailed closure timetable, this includes earlier related parties' information requests from Directors and Councillors along with a due date on the timetable to have the returns back within the stipulated time to demonstrate good governance. Closure of Accounts lead will ensure/monitor that the request and the returns are made and returned within the due date, which is earlier in the year.</p> <p>Technical and financial reporting team</p> <p>31 March 2018</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 are pleased to report that the Authority has taken appropriate action to address five of the issues that we have previously highlighted through high priority recommendations. There was one recommendation relating to PPE controls for disposal and valuation of assets which was identified as still in progress.

Appendix 2: Summary of reports issued



Appendix 3: Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

Our final fee for the 2016/17 audit London Borough of Barking and Dagenham was £177,928, this compares the PSAA set scale fee of £165,975.

We have agreed a fee variation with the Authority which is subject to final approval by the PSAA for £11,952. This is because of:

- In order to prepare its Statement of Accounts the Authority commissioned a valuation report of its land and buildings. We undertook our planned procedures and identified material inconsistencies between the dimensions recorded in the data used by the Valuer and the actual buildings. We reported this to management, who commissioned a revised report. In response we undertook additional testing.
- The Authority's Statement of Accounts had incorrectly accounted for internal recharges in regards to support services and schools. These errors were material and required revision by the Authority.
- In 2016/17 the Authority has a number of schools who have ceased to use the Authority's accounting system. We identified that the SOA had material misclassifications of expenditure for those schools not using the Authority's system.

Our final fee for the 2016/17 audit of the Pension Fund was in line with the planned fee of £21,000.

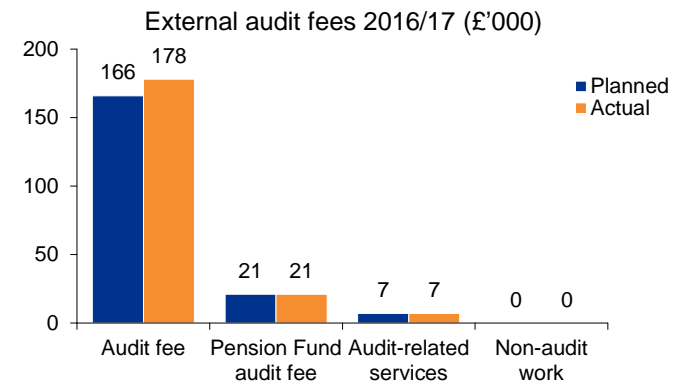
Certification of grants and returns

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 2018.

Other services

We charged £7,000 for additional audit-related services for the certification of the Pooling of Capital Receipts grant claim and the Teachers Pension return, which are outside of Public Sector Audit Appointment's certification regime. Prior to our appointment as auditor to the London Borough of Barking and Dagenham we advised the Authority on VAT matters. One area, which is common across Local Authorities nationally, is currently being tested with HMRC.

In the event that the test case is successful, we will assist the Authority with preparation of papers to submit to HMRC. The maximum potential fee is £60,000, however we will not receive any fee unless the case is successful.





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