



Annual Audit Letter 2015/16

Royal Borough of Kensington and
Chelsea

—
24 October 2016



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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.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. 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.

Section one

Headlines

This Annual Audit Letter summarises the outcome from our audit work at the Royal Borough of Kensington and Chelsea in relation to their 2015/16 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 2015/16 on 30 September. This means we are satisfied that during the year the Authority had proper arrangements for 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.</p> <p>Our work focussed on the following areas:</p> <ul style="list-style-type: none"> ▪ <i>Managed Services implementation</i>: Included within our assessment was the consideration of information provided to management and those charged with governance to support effective decision making. ▪ <i>Procurement and contract management</i>: We reviewed the contract management arrangements surrounding the Authorities waste Management and the managed services contracts; and ▪ <i>Sustainable resource deployment</i>: Through review of the medium term financial plan we considered the robustness of the underlying assumptions. We reviewed a sample of cost improvement plans, we assessed the controls in place to ensure the deliverability of plan against quality considerations. <p>There are no matters of significance arising as a result of our audit work on these VFM focus areas.</p>
Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 30 September 2016. 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>Within our plan we identified four financial statement risks. In addition to the rebuttable presumption of the fraud risk from revenue recognition, we identified the following key financial statement audit risks in our 15/16 External audit plan issued in April 2016.</p> <ul style="list-style-type: none"> ▪ Management override of controls; ▪ Valuation of Property, Plant and Equipment; and ▪ Managed Services implementation (affecting Cash, Debtors, Creditors, Journals and Payroll). <p>The materiality level for this year's audit was set at £10 million. Audit differences below £500,000 were not considered significant. We did not identify any significant adjustments. We identified and agreed a small number of presentational adjustments required to ensure that the accounts were compliant with the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code')</i>.</p>
Annual Governance Statement	We reviewed the Annual Governance Statement and concluded that it was consistent with our understanding and that it complied with 'Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE'.

Section one

Headlines (cont)

Our opinions on the pension fund and the Whole of Government Accounts were provided on the 30 September 2016.

Pension fund audit	<p>We issued an unqualified opinion on the Pension Fund on the 30 September 2016.</p> <p>In 2015/16 the administration of the pension fund transferred from CAPITA to Surrey County Council (SCC). This has highlighted a number of data exceptions which the Authority and SCC will work together to cleanse over the next 6 months. Linked to this, as part of our testing of membership data, we identified a number of exceptions, specifically in relation to active members.</p> <p>In 2015/16, the fund contained level 2 and 3 assets with valuation of fund managers of over £91 million. Typically, we would expect the custodian to provide assurance over the valuation of these assets. In 2015/16, this was not provided by the custodian and therefore we obtained assurances from the fund managers themselves.</p> <p>A high priority recommendation in relation to the pension fund data cleanse was agreed with the Authority and included within our ISA 260. The recommendation is reiterated within Appendix 1 to this report.</p>
Whole of Government Accounts	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. On the 30 September 2016, we reported that the Authority's pack was consistent with the audited financial statements.</p>
High priority recommendations	<p>We raised two high priority recommendations as a result of our 2015/16 audit work. These are detailed in Appendix 1 together with the action plan agreed by management.</p> <ul style="list-style-type: none"> — Transactions processed by service organisation (BT): Where a service organisation is used for financial transactional processing, we would typically expect to receive an independent assurance report on controls at the service organisation (ISAE 3402). The report would be issued by a third party and provide an assessment of the financial control environment. This was not provided (or commissioned) by BT. We have recommended that an ISAE 3402 is commissioned, or that specific internal audit work is undertaken at BT to provide this assurance. — Pension Fund membership data: As detailed above, our testing identified a number of exceptions in active membership data. The pension fund administrator is now in the process of cleansing the data. We have agreed a recommendation with management that, once the cleansing of membership data is complete and all parties are agreed that this is the case, RBKC should ensure that a detailed assurance exercise is undertaken. This exercise will need to be more detailed than an audit and could be externally procured or completed by Internal Audit. <p>We will formally follow up these recommendations as part of our 2016/17 work.</p>
Certificate	<p>We issued our certificate on 30 September 2016. The certificate confirms that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.</p>
Audit fee	<p>Our scale fee for the audit was £121,125 plus VAT (£159,300 in 2014/15) for the accounts audit and £21,000 plus VAT (£21,000 in 2014/15) for the Pension Fund. This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in April 2016. Further detail is contained in Appendix 3.</p>

Appendix 1: Key issues and recommendations

Within our 2015/16 ISA 260, we agreed three recommendations, two high priority recommendations, which are reiterated within this Appendix, and one medium priority in relation to debtors controls.

There we no recommendations from prior years that required follow up.

Priority rating for recommendations			
❶	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.	❸	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.
❷	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.		

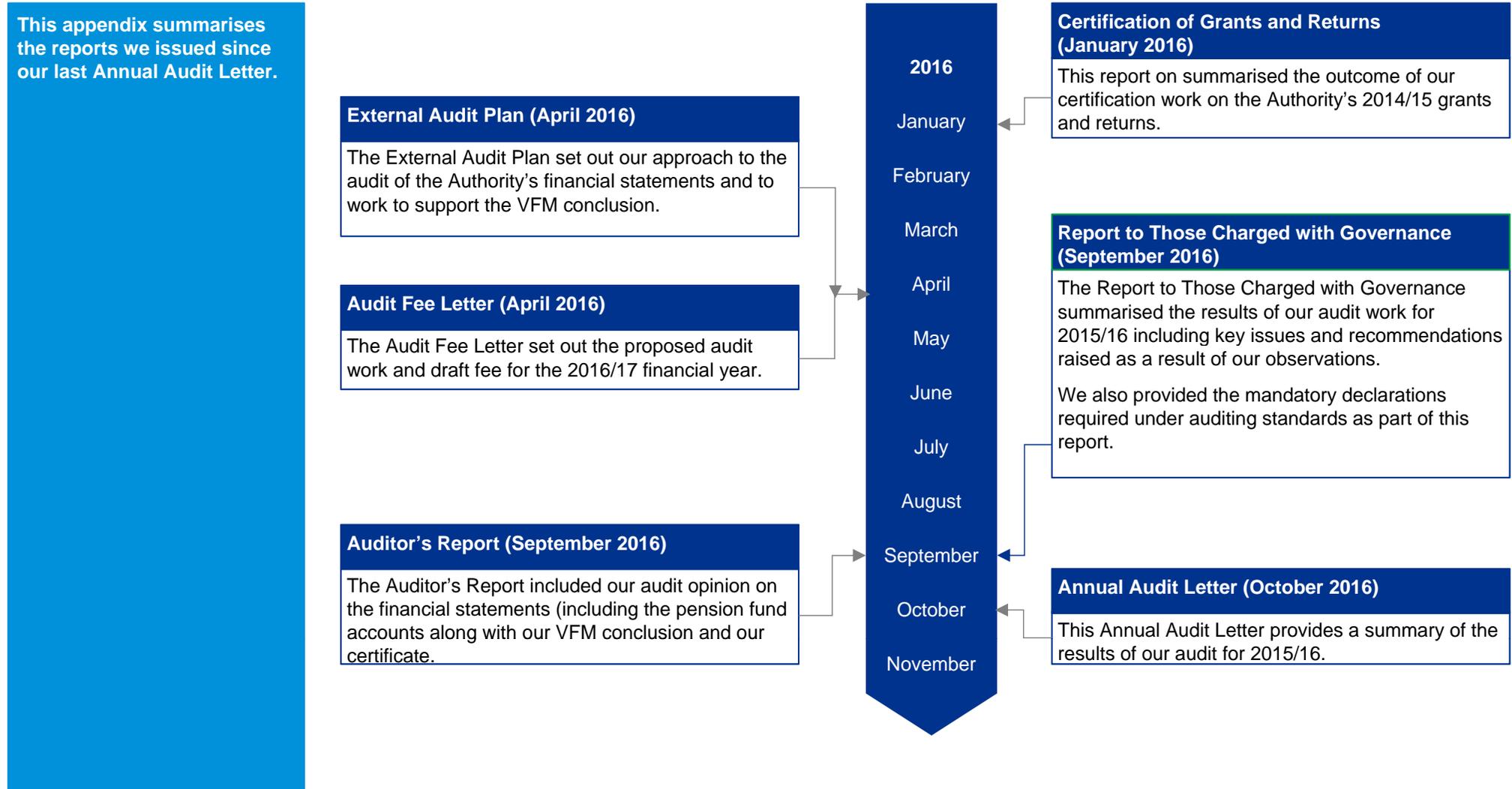
No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Transactions processed by service organisation</p> <p>During our test work journal transactions, we were unable to verify segregation of duties for transactions initiated at BT relating to error corrections. This was the case for 6 of the journals we tested.</p> <p>During other areas of our testwork, including debtors, we noted several instances of transactions that were originally posted incorrectly by BT and detected/corrected by local finance staff.</p> <p>Typically, service organisations provide an assurance report on controls at the service organisation (ISAE 3402). The report would be issued by a third party and provide an assessment of the financial control environment. This was not provided (or commissioned) by BT.</p> <p>Recommendation</p> <p>The Council should consider how to obtain assurance over the control environment at BT. This can be achieved through the commissioning of an ISAE 3402 as noted above or specific internal audit work undertaken at BT. The resulting report should be reviewed by management and any areas for local consideration should be actioned accordingly.</p>	<p>The Council will investigate and consider options as to how it can obtain increased assurance over the control environment at BT. This may include an internal review of controls, an externally certified review, or a combination of both. The Council will review any findings and ensure that any areas for local consideration are actioned accordingly.</p> <p>Responsible Officer: Kevin Bartle, Director of Finance</p> <p>Due date: 31 March 2017</p>

Appendix 1: Key issues and recommendations

We have agreed that following the cleansing of membership data, that the Authority will complete an internal audit of data to provide assurance that data issues have been resolved.

No.	Issue and recommendation	Management response / responsible officer / due date
2	<p>Pension Fund membership data</p> <p>Pension fund data integrity has been impacted by both the transfer of administering responsibilities from Capita to Surrey County Council (SCC), and through the introduction of a new financial ledger through the managed services program.</p> <p>We undertake a number of analytical procedures within the pension fund audit. As part of this, we need to gain assurance over the pension fund membership data through detailed sample testing.</p> <p>During our initial testing of membership data on contributions and pension benefits, we found a number of issues which required us to expand our sample in order to be able to reach an opinion on the financial statements</p> <p>The Council is aware of the issues encountered with the handover of data from Capita to SCC both in terms of technical difficulties and completeness/accuracy of data held; and also the lack of a direct interface between BT managed services systems and SCCs pensions administration systems. Consequently, there is a comprehensive plan to ensure all membership data is complete and accurate within the next 6-12 months.</p> <p>Recommendation</p> <p>Once the cleansing of membership data is complete and all parties are agreed that this is the case, RBKC should ensure that a detailed assurance exercise is undertaken. This exercise will need to be more detailed than an audit and could be externally procured or completed by Internal Audit.</p> <p>RBKC should also ensure that it is able to routinely reconcile appropriate information between BT managed services systems and SCCs pensions administration systems. This would provide assurance throughout the year that all contributions are being collected by RBKC and passed to the Pension Fund.</p>	<p>The Council will ensure that a detailed assurance exercise is put in place to tackle the historical casework backlog inherited from Capita as well as the proposals for cleansing inherited data on the pensions administration system where required. The aim will be to complete the work within a one year period starting on 1 October 2016, although it is recognised that some aspects could take longer if any complicating factors arise.</p> <p>The Council agrees that the reconciliation of pension contributions between BT Managed Services and the Pension Fund needs to be more robust and transparent. The Pensions and Treasury Service is leading on the review of the current processes and will put satisfactory arrangements in place before the end of the current financial year.</p> <p>The Council will commence a reconciliation of appropriate scheme member information between BT Managed Services and Surrey County Council before the end of the current financial year.</p> <p>Responsible Officer: Debbie Morris, Bi-Borough Director of HR</p> <p>Due dates: Reconciliation processes will be place by 31 March 2017 with the majority of the casework to be cleared by 30 September 2017</p>

Appendix 2: Summary of reports issued



Appendix 3: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

Our final fee for the 2015/16 audit of the Authority was £121,425 which is in line with the planned fee.

Our planned fee for the 2015/16 audit of the Pension Fund was £21,000.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments (PSAA) we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing.

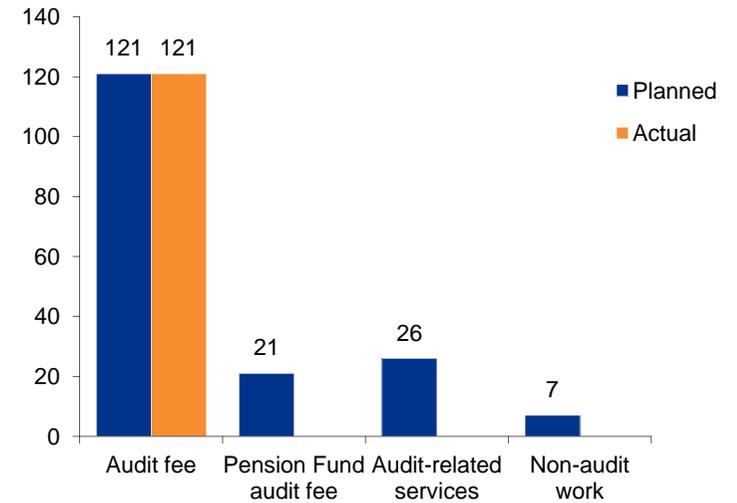
The scale fee for certification of grant claims for Housing Benefits is planned at £26,170 plus VAT (£26,540 in 2014/15). Final fees will be agreed upon completion and reported in January 2017.

Other services

We will complete the audit of the Teachers' Pension grant claim and Pooling Capital Receipts return, which are outside the PSAA certification regime

Work in relation to these is ongoing and final fees will be issued upon completion, however we would anticipate a fee of £7,000 plus VAT (£7,000 in 2014/15).

External audit fees 2015/16 (£'000)





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