External Audit Plan 2017/18

London Borough of Hackney

January 2018

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting (“the Code”) in 2017/18, which provides stability. Deadlines for producing and signing the accounts have advanced. Whilst a 31 July sign off was achieved by the Authority in 2017, delivery in 2017/18 remains a significant change and needs careful management to ensure the new deadlines are met. We have recognised this as an area of audit focus. To meet the revised deadlines it is essential that the draft financial statements and all ‘prepared by client’ documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018.

Authority significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

– **Valuation of land and buildings:** While the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the methodology the Authority uses to ensure that those assets subject to a desktop valuation are materially accurate; and

– **Pension liabilities:** The valuation of the Authority’s pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes to ensure the accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as conditional grant income, faster close, NNDR appeals provision, payroll, cash, non pay expenditure and HRA Income & Expenditure.

Pension fund significant risks

– **Valuation of hard to price investments:** The pension fund invests in a range of assets and funds, some of which are inherently harder to value due to there being no publicly available quoted prices. We will verify a selection of investments to third party information and confirmations.

Value for Money Audit

Our risk assessment regarding your arrangements to secure value for money has not, at this planning stage, identified any significant risks.

However we have identified two areas of focus where we will review the arrangements in detail:

– **Financial resilience:** As a result of reductions in central government funding, and other pressures, the Authority is continuing to have to make savings. We will consider how the Authority identifies, approves, and monitors savings plans and how budgets are managed throughout the year.

– **Contract monitoring:** Contract monitoring continues to be a key control in ensuring the Authority, having gone through competitive tender processes, manages the contract and makes sure that services are delivered to the right quality and in line with agreed performance indicators. We will select a sample of contracts and review the monitoring arrangements against the contracts.

Other information

Logistics and team

Our team is led by Andrew Sayers, Partner and Jenny Townsend, Senior Manager.

Our work will be completed in four phases from January to July and our key deliverables are this Audit Plan, progress reports to the Audit Committee and a Report to Those Charged With Governance with our final findings from the audit.

Fees

Our fee for the 2017/18 audit is £226,320 (2016/2017: £226,320). This is in line with the scale fees published by PSAA.

Acknowledgement

We thank officers and Members for their continuing help and cooperation throughout our audit.

Content

The contacts at KPMG in connection with this report are:

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This report is addressed to London Borough of Hackney (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. PSAA 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 PSAA'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, 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 (0207 694 8981, 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 3H.

1. Introduction

Background and statutory responsibilities

This plan supplements our 2017/18 audit fee letter dated 25 April 2017, which set out details of our appointment by PSAA.

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the NAO's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit / review and report on your:

- **Authority and Pension Fund Financial statements:** Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and
- **Use of resources:** Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reporting to the Audit Committee.

Financial statements audit

Our financial statements audit follows a four stage process:

- Financial statements audit planning
- Control evaluation
- Substantive procedures
- Completion

Appendix 1 provides more detail on these stages. This plan concentrates on the Financial Statements Audit Planning stage.

Value for Money

Our Value for Money (VFM) arrangements work follows a five stage process:

- Risk assessment
- Links with other audit work
- Identification of significant VFM risks
- Review work (by ourselves and other bodies)
- Conclude
- Report

Page 10 provides more detail on these stages. This plan concentrates on explaining the VFM approach for 2017/18 and our response to it.

2. Financial statements audit planning

Financial statements audit planning

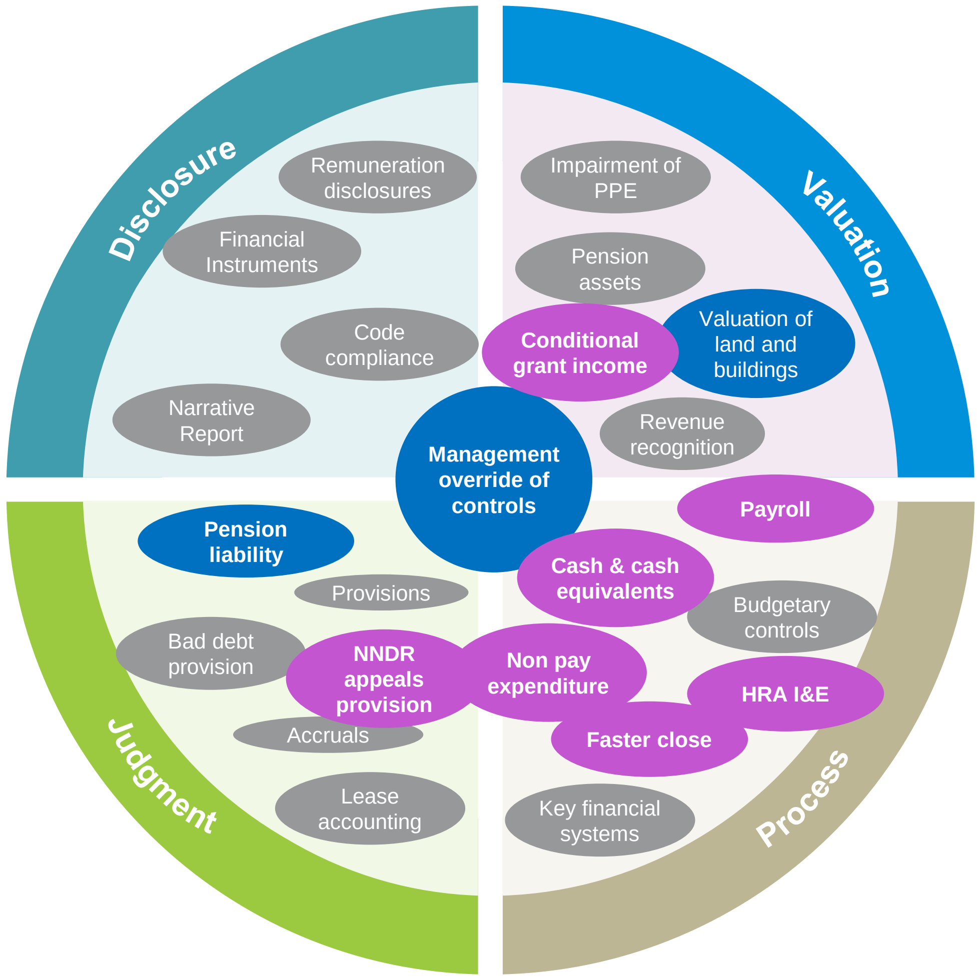
Our planning work takes place between January 2018 and February 2018 and involves: determining materiality; risk assessment; identification of significant risks; consideration of potential fraud risks; identification of key account balances and related assertions, estimates and disclosures; consideration of Management's use or experts; and issuing this plan to communicate our audit strategy.

Authority risk assessment

Professional standards require us to consider two standard risks. We are not elaborating on these standard risks in this plan but consider them as a matter of course and will include any findings arising from our work in our ISA 260 Report.

— **Management override of controls:** Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit incorporates the risk of Management override as a default significant risk. In line with our methodology, we carry 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.

— **Fraudulent revenue recognition:** We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.



Key: ● Significant risk ● Area of audit focus ● Other areas considered

2. Financial statements audit planning

Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Valuation of land and buildings

Risk: The Authority held land and buildings with a value of £4,404 million at 31 March 2017. The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees land and buildings revalued over a five year cycle unless it is thought that the value may have changed materially where they are revalued more frequently. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.

Approach: We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will assess the risk of the valuation changing materially in year. We will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

Pension liabilities

Risk: The net pension liability at 31 March 2017 of £349 million represents a material element of the Authority's balance sheet. The Authority is an admitted body of the London Borough of Hackney Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of the Authority's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Approach: We will review controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will liaise with the auditors of the Pension Fund to gain an understanding of the effectiveness of controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will evaluate the competency, objectivity and independence of Hymans Robertson.

We will review the appropriateness of key assumptions in the valuation, compare them to expected ranges, and consider the need to make use of a KPMG actuary. We will review the methodology applied in the valuation by Hymans Robertson. In addition, we will review the overall actuarial valuation and consider the disclosure implications in the financial statements.

2. Financial statements audit planning

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding. In comparison to 2016/17, we have removed: Disclosures associated with restatement of CIES, EFA and MiRS as an area of other focus and introduced conditional grant income, which was previously a significant risk.

Faster Close

Risk: In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 revised deadlines apply which require draft financial statements by 31 May and final signed financial statements by 31 July.

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its accounts production timetable so that draft accounts were ready earlier. The main financial statements were signed on the 31 July, but the Pension Fund annual report was not signed until the 30 September 2017. Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met.

To meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. There are logistical challenges that will need to be managed including:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, subsidiaries and subsidiary auditors) are aware of the revised deadlines and have made arrangements to provide the output of their work accordingly;
- Revising the closedown and accounts production timetable to ensure that all working papers and supporting documentation are available at the start of the audit;
- Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline. There is an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not seen as a breach of deadlines.

Approach: We will continue to liaise with officers in preparation for our audit to understand the steps the Authority is taking to meets the revised deadlines. We will look to advance audit work into the interim visit to streamline the year end audit work. Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

NNDR appeals provision

- Issue: NNDR is material and has complexity in the translation from Collection Fund into Council prime statements and a high degree of subjectivity underlying the NNDR appeals provision.
- Approach: We will gain an understanding over controls related to business rates income and specifically the appeals process. We will review the methodology applied in determining the appeal provision and report as to whether this reflects a balances, cautious or optimistic assessment.

2. Financial statements audit planning

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Conditional grant income

- **Issue** The Council receives grants containing certain conditions. c£21M of grants were included within the balance sheet as at 31 March 2017 as unspent.   Each grant is awarded on the basis that it will be drawn down at a service level once the specific conditions of the grant have been met. The grant cannot be credited to the comprehensive income & expenditure account until the conditions attached to the grant have been satisfied.
- **Approach:** In 2016/17 we included this area as a significant risk. No issues were identified. To reflect this, we have included this in 2017/18 as an area of focus. We will review the controls in place to ensure that grants are recognised only when there is reasonable assurance that the Authority will comply with any conditions attached to the grant and ensure that for a sample of grants, that they have been applied over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis;
- We will ensure that the accounting policy adopted for grants has been disclosed within the accounts..

Payroll

- **Issue**: Payroll represents a significant proportion of the Authority's annual expenditure. Whilst not considered overly complex from a material error perspective, we consider that it is important from an audit perspective to understand the nature of the Authority's expenditure in this area.
- **Approach:** We will review and test reconciliations for gross pay and deductions (e.g. pensions, tax and national insurance); and complete substantive analytical review of payroll costs and test supporting system information used to compile the review.

Cash & cash equivalents

- **Issue:** Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements.
- **Approach:** We will review controls over bank reconciliations; and confirm balances with external third parties.

Non-Payroll Expenditure

- **Issue:** Non-payroll expenditure, specifically the accounts payable component, is an area of audit focus due to its pervasive impact on the financial statements and size.
- **Approach:** We will perform substantive tests of details to agree expenditure to third party documentation and cut-off testing of non-payroll expenditure to ensure costs are recorded in the correct period.

HRA Rental Income and Repairs and Maintenance and Management Expenditure

- **Issue**: HRA dwelling rental income is an area of audit focus due to the material size.
- **Approach**: We will gain an understanding over controls related to HRA rental income and expenditure; test the operating effectiveness of relevant controls; and complete substantive procedures over transactions.

2. Financial statements audit planning

Pension Fund risk assessment

Professional standards require us to consider two standard risks. We consider them as a matter of course and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls:** Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit incorporates the risk of Management override as a default significant risk. In line with our methodology, we carry 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.
- **Fraudulent revenue recognition:** We do not consider this to be a significant risk for local authority Pension Funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

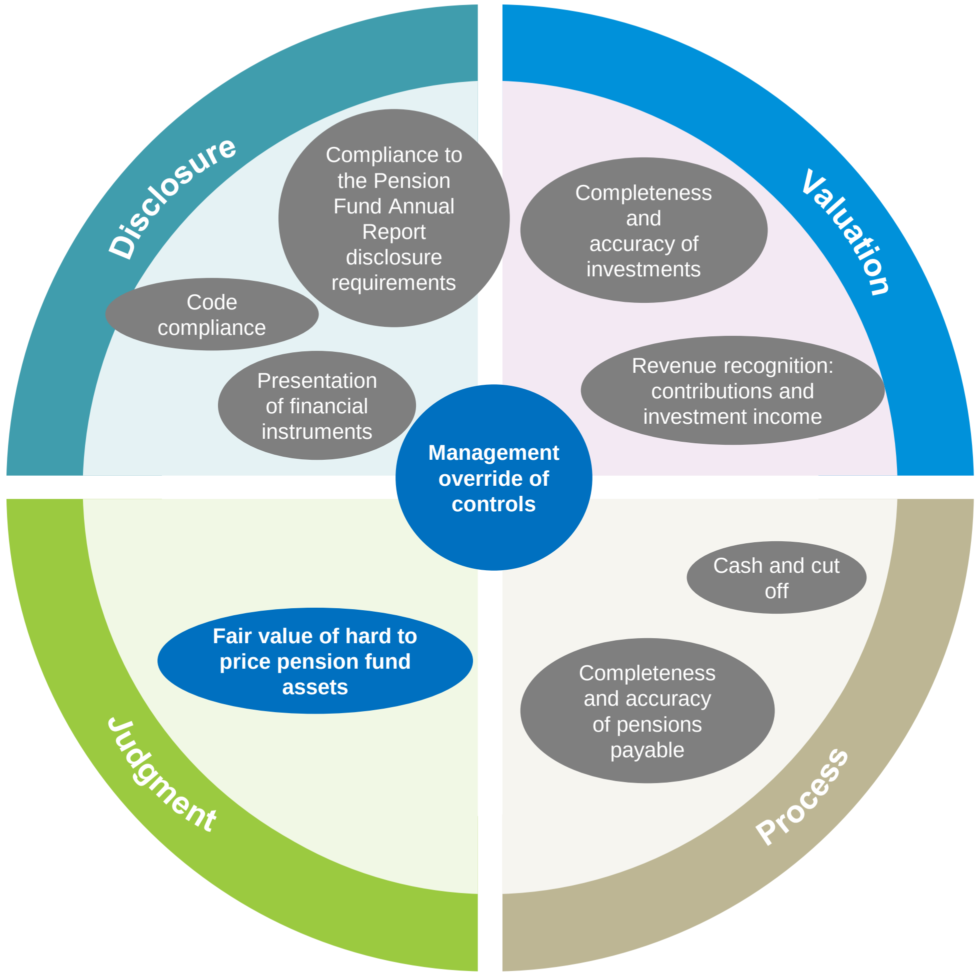
Pension Fund significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

Valuation of hard to price investments

Risk: The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may be susceptible to pricing variances given the assumptions underlying the valuation. In the prior year financial statements £720 million out of total financial investments of £1,172 million or 61%, were in this harder (level 2) to price category.

Approach: We will independently verify a selection of investment asset prices to third party information and obtain independent confirmation on asset existence. We will test to what extent the Pension Fund has challenged the valuations reported by investment managers for harder to price investments and assumptions used in preparing those figures.



Key: ● Significant risk ● Other areas considered

2. Financial statements audit planning

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements. Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority materiality for planning purposes has been set at £15 million which equates to approximately 1.3% of 2016/17 expenditure. The threshold above which individual errors are reported to Audit Committee is £750K.

For the Pension Fund materiality for planning purposes has also been set at £23 million which equates to approximately 1.6% of the net assets at 31 March 2017.

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 unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority and the Pension Fund we propose that an individual difference could normally be considered to be clearly trivial if it is less than £750,000.

If management has corrected material misstatements identified during the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Liaising with internal audit

ISA (UK & Ireland) 610 (revised June 2013) defines how we can use the work of internal audit. Our approach ensures we comply with these requirements. We will liaise with internal audit and review the findings from their programme of work for 2017/18. We will also consider any significant control deficiencies identified by internal audit and ensure that we take this into account where relevant to determine the nature of our audit work to ensure the risk is appropriately addressed.

3. Value for money arrangements work

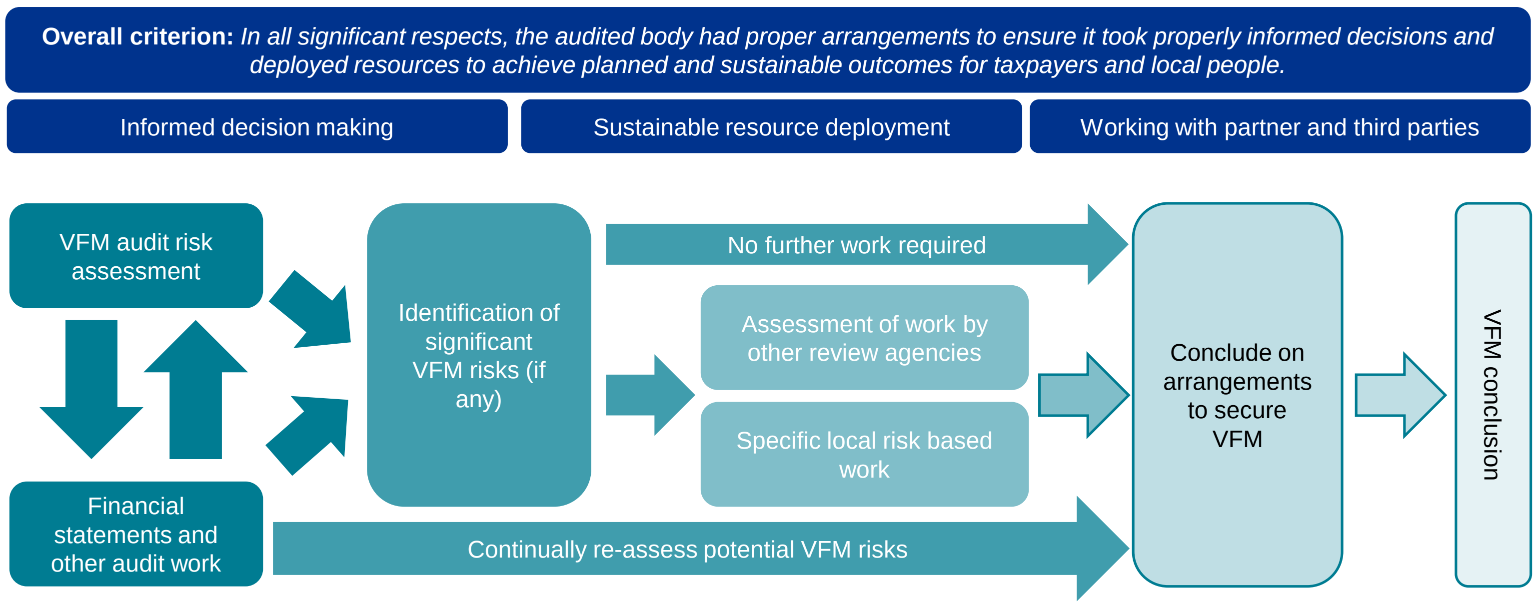
For our value for money conclusion we are required to work to the NAO Code of Audit Practice (issued in 2015 after the enactment of the Local Audit and Accountability Act 2014).

Our approach to VFM work follows the NAO's new guidance that was first introduced in 2015-16, is risk based and targets audit effort on the areas of greatest audit risk.

We have planned our audit to draw on our past experience of delivering this conclusion and have updated our approach as necessary. We will also consider reports from your regulators and review agencies.

The Local Audit and Accountability Act 2014 requires auditors to be satisfied that the organisation "has made proper arrangements for securing economy, efficiency and effectiveness in its Value for Money". 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 process is shown in the diagram below:



We have completed our initial planning VfM risk assessment and have not identified any significant risks for the VfM conclusion. However we have identified two areas of audit focus which are described overleaf. As we complete our risk assessment we will consider if there are further significant risks and if so report these to the Audit Committee.

3. Value for money arrangements work

VFM other areas of focus

Those risks with less likelihood of giving rise to a significant VFM risk but which are nevertheless worthy of audit understanding.

Delivery of budgets

Risk: In 2017/18 the Council plans to spend circa £1bn (before recharges) on services including, Education, Housing, Adult Social Care, Children's Care and Youth Services, Sport and Leisure, Refuse collection and recycling and street cleaning and maintenance. This investment is funded from a combination of sources including, Government grants, Housing rents, other fees and service charges and Council Tax. The non-housing capital budget for 17/18 is £212 million with a further £186 million on housing projects. The approved budget included making savings of approximately £13.8 million.

Approach: We will review controls the Authority has in place to ensure financial resilience, including how the Authority identifies, approves, and monitors savings plans and how budgets are managed throughout the year. We will also review that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

VFM sub-criterion: This risk is related to the following Value For Money sub-criterion:

— Informed decision making;

— Sustainable resource deployment; and

— Working with partners and third parties.

Contract monitoring

Risk: The Authority has entered into a Section 75 agreement with the City and Hackney Clinical Commissioning Groups (CCG). Out with this, the Authority continues to work closely with partners and third parties, either through joint agreements or the more standard commercial contract with the third party providing the service. Having gone through competitive tendering processes in line with the Authority's regulations, it is vital that contract terms and agreed performance indicators are monitored closely to ensure that the Authority obtains maximum value for money from these contracts.

Approach: We will select a sample of contracts and obtain an understanding of the controls that are in place to monitor the contract, both from a financial viewpoint but also that the quality of the service provided meets the contract specification. We will then test that these controls are operating as expected.

VFM sub-criterion: This risk is related to the following Value For Money sub-criterion:

— Informed decision making; and

— Working with partners and third parties.

4. Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are: the right to inspect the accounts; the right to ask the auditor questions about the accounts; and the right to object to the accounts. As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece where we interview an officer and review evidence to form our decision to a more detailed piece where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. Costs incurred responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with PSAA's fee scales. We currently have one objection where work is ongoing. This is in relation to your Hackney Technology and Learning Centre (TLC) PFI.

Our audit team

Your audit team has been drawn from our specialist public sector assurance department and is led by two key members of staff:

- **Andrew Sayers**: your Partner has overall responsibility for the quality of the KPMG audit work and is the contact point within KPMG for the Audit Committee, the Chief Executive and Chief Finance Officer.
- **Jennifer Townsend**: your Senior Manager is responsible for delivery of all our audit work. He will manage the completion of the different elements of our work, ensuring that they are coordinated and delivered in an effective manner.

The core audit team will be assisted by other KPMG staff, such as risk, tax, clinical or information specialists as necessary to deliver the plan.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but in ensuring that the audit team is accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are required to be independent and objective. Appendix 2 provides more details of our confirmation of independence and objectivity.

4. Other matters

Audit fee

Our Audit Fee Letter 2017/2018 presented to you on 25 April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the Chief Finance Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £226,320 for the Authority (2016/17: £226,320. The planned audit fee for 2017/18 is £21,000 for the Pension Fund (2016/17: £21,000).

Grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements:

- Housing benefits grant claim: This audit is planned for September. Our fee for this work is £38,616;
- Pooling of housing capital receipts: This audit is planned for September Our fee for this work is £3,500; and
- Teachers pension contribution return: This audit is planned for September. Our fee for this work is £3,750.

Public interest reporting

In auditing the accounts as your auditor we must consider whether, in the public interest, we should make a report on any matters coming to our notice in the course of our audit, in order for it to be considered by Members or bought to the attention of the public; and whether the public interest requires any such matter to be made the subject of an immediate report rather than at completion of the audit.

At this stage there are no matters that we wish to report.

Appendix 1: Key elements of our financial statements audit approach

Communication

Continuous communication between you and us

- Audit strategy and plan to Audit Committee
- Interim report (if required)
- ISA 260 (UK&I) Report
- Annual Audit Letter

Dec | Jan | Feb | Mar | Apr | May | Jun | July | Aug

Audit workflow

- Initial planning meetings and risk assessment
- Interim audit
- Year end audit of financial statements and annual report
- Sign audit opinion

Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Audit Committee reporting

KPMG

Appendix 2: Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LONDON BOROUGH OF Hackney

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: General procedures to safeguard independence and objectivity; Breaches of applicable ethical standards; Independence and objectivity considerations relating to the provision of non-audit services; and Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values; Communications; Internal accountability; Risk management; and Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 2: Independence and objectivity requirements

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its affiliates for professional services provided by us during the reporting period.

We confirm that all non-audit services have been included in this plan to be approved by the audit committee.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following.

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2018 £	Value of Services Committed but not yet delivered £
Assurance Report on the Teachers' Pension Return 2017/18	None	None	Estimate of time required to complete the tests set by the Teachers' Pension	-	3,750
Assurance Report on the Pooling of Housing Capital Receipts 2017/18	None	None	Estimate of time required to complete the tests set by the DCLG	-	3,500

Appropriate approvals would be obtained from PSAA for all non-audit services if they exceeded the relevant thresholds during the reporting period. This threshold has not been reached in providing the above services. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Andrew Sayers, the Partner and the audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

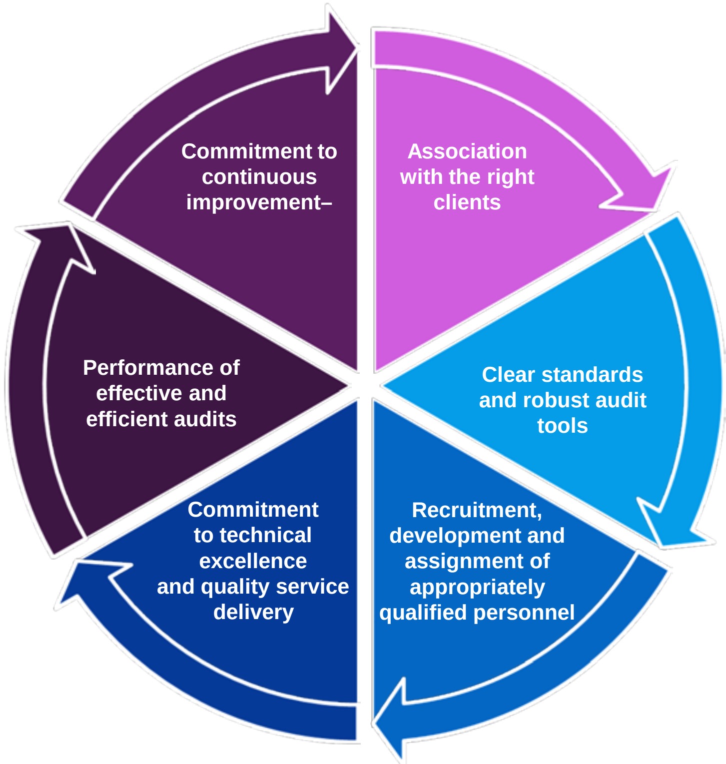
We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Appendix 3: Quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

KPMG

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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, 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, 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, by email to 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.