
Government and Public Sector
***London Borough of
Bromley***

Annual Audit Letter

2010/11

November 2011

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The Members
London Borough of Bromley
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24 November 2011

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit.

Yours faithfully

PricewaterhouseCoopers LLP

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2010/11 audit work we have undertaken at London Borough of Bromley that is accessible for the Authority and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- London Borough of Bromley 2010/11 Audit Plan.
- London Borough of Bromley Pension Fund 2010/11 Audit Plan.
- London Borough of Bromley ISA 260 Report to those charged with Governance.
- London Borough of Bromley Pension Fund ISA 260 Report to those charged with Governance.
- Audit opinion on the London Borough of Bromley 2010/11 financial statements, including Value for Money Conclusion.
- Audit opinion on the London Borough of Bromley Pension Fund.
- Internal Control Recommendations report to management.

The matters reported here are those that we consider are most significant for the Authority.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2010/11 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2011.

Audit Findings

Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards and issued an unqualified audit report on 29 September 2011.

We would like to thank officers and their teams for their assistance with the 2010/11 audit process.

We identified the following key matters from our audit of accounts:

- Implementation of International Financial Reporting Standards
- Valuation of Property, Plant & Equipment
- Valuation of Investment Properties.

Implementation of International Financial Reporting Standards (IFRS)

Under the Code of Practice on Local Authority Accounting the Authority was required to prepare the 2010/11 financial statements under International Financial Reporting Standards (IFRS). This also required the restatement of the 2009/10 financial statements and the balance sheet as at 1 April 2009.

The Authority has worked through the guidance issued to produce IFRS compliant financial statements. The finance team worked hard to produce a first draft of the financial statements in July 2011 which were of a high standard.

A number of key areas of focus were identified during the IFRS restatement process and are summarised below:

- **Accounting for leases**
Under IFRS the Authority was required to consider the nature of the leases which it has in place, to identify whether the lease represents an operating lease or a finance lease. The Authority worked to consider the significant leases which it held and whether these should be accounted for as operating leases or finance leases.
- **Component accounting**
Under IFRS the Authority was required to identify the individual components within Property Plant and Equipment assets, apply a value to each component and depreciate those over their individual useful economic lives. Management considered componentisation across the Land & Buildings assets with a value in excess of £1.0m that have been revalued in year (see below) and applied componentisation to those assets. The impact on the overall depreciation charge was an increase of £25,000 across this asset population, extrapolated to £143,000 for the entire Land & Buildings population.
- **Holiday pay accrual**
The Authority calculated the holiday pay accrual that existed at 31 March 2011. This represented the holiday entitlement that has been earned and not taken at the balance sheet date. The Authority reflected an accrual of £7.8 million on the balance sheet as at 31 March 2011.

Valuation of Property, Plant and Equipment

In line with its accounting policy the Authority revalued 20% of its Land & Buildings in year as at 31 March 2011. The value of these revalued assets totalled £277.6 million. Valuation gains of £23.7 million and impairment losses of £12.4 million were recorded on Land & Buildings in year, resulting in an overall valuation gain of £11.3 million.

We asked management to consider formally the impact of the valuation movements identified by the 20% land and buildings across the remaining population of assets not revalued in years. We also requested management consider any potential impairment of classes of assets which were revalued in year. Management completed both of these exercises and overall we were satisfied with the valuation exercise undertaken during 2010/11.

However, as noted in previous years and reported to those charged with Governance, the Authority would benefit from a more formal process for monitoring valuation movements in year to ensure that the balance sheet at the 31 March accurately reflects the value of the asset base. We will work with management in the coming months to document a formal process in this area.

Valuation of Investment Properties

Under International Financial Reporting Standards the Authority is required to consider the valuation of all Investment Properties on an annual basis. In 2010/11 the Authority revalued £35.5 million of the Investment Properties of £49.1 million. Gains on revaluation of £0.1 million were recorded in the financial statements. The Authority has considered the valuation of the non-valued assets and believes there are no indicators of impairment in this area.

Overall we were satisfied that as a result of the valuation exercise undertaken during 2010/11 that the asset value is materially accurate. Going forward the Authority should ensure that the valuation of all Investment Properties is considered on an annual basis to ensure the balance sheet values accurately reflect the value of the Investment Properties held.

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion was based on two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we were not required to reach a scored judgment in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We are pleased to confirm that we have issued an unqualified value for money conclusion.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Summary of recommendations

There were not significant recommendations raised in our ISA 260 reports on the audit of the Authority's financial statement or pension fund.

We report internal control recommendations separately to the Finance Director and action plans have been agreed with officers.

Our Internal Control Report, issued in October 2011, has been approved and officers are working actively to address the recommendations raised. The areas where recommendations for improvement have been identified include:

- Develop a formal process to consider the potential valuation movements of all Land & Building assets.
- Ensure that the value of all Investment Properties are considered on an annual basis.
- Some low value expenditure items were found to be recorded in the wrong financial period. Therefore it would be beneficial to undertake a review the closedown process to ensure that the procedures for ensuring that expenditure is recorded in the right financial year are appropriate.
- IT controls, including testing of disaster recovery plans and system access and monitoring.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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