

London Borough of Bromley

2008/09 Annual Audit Letter



The Members
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23 December 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. We look forward to presenting it to members of the Executive in March 2010.

Yours faithfully

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

In April 2008 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 2008/09 audit work we have undertaken at London Borough of Bromley that is accessible for members and other interested stakeholders.

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

- Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources
- Report to those charged with Governance (ISA (UK&I) 260)
- Audit opinion on the Pension Fund
- Report to those charged with Governance (ISA (UK&I) 260) on the Pension Fund Annual Report and Accounts
- Use of Resources report.

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

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 Council is responsible for preparing and publishing its financial statements, including 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 Council's Annual Governance Statement
- Forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources
- Undertaking any other work specified by the Audit Commission.

Our 2008/09 audit work has been undertaken in accordance with the Annual Audit and Inspection Plan that we issued, as a joint document with the Audit Commission, in June 2008.

Working with the Council

Our relationship with the Council is very important to us. We believe that we have worked well with the Council over the last 12 months, but we as a team have set an objective of improving this further over the coming year.

We now have a good understanding of the Council, its risks, challenges and objectives. There is likely to be significant pressures on the public sector finances over the medium term and the Council is likely to have to make

some tough decisions and re-focus how it operates to meet future objectives. We aim to add value through our audit work both on the financial statements but also in areas such as the Use of Resources Assessment and we will continue to work with the Council as its auditors to help it manage its risks and meet its objectives going forward.

Audit findings

Accounts

We audited the Council's accounts in line with approved Auditing Standards and were pleased to issue an unqualified audit report on 24 September 2009.

In our Report to those charged with Governance (ISA (UK&I) 260) we set out the issues that we identified during the accounts audit. There was only one issue which resulted in a material change to the financial statements and this is set out below.

Fixed asset revaluations

The Council have historically revalued its assets on a five yearly rolling programme and this was the approach continued in 2008/09. The Local Government Statement of Recommended Practice (SORP) states that all assets must be revalued at a minimum every five years and more often if there is an indication that asset values are likely to have materially changed.

During the audit we identified that one category of the Council's assets were materially undervalued as they were only being revalued on a five yearly cycle therefore had not increased in value in line with the rising land and property prices. Additional work was performed on the valuation of these assets and they were subsequently increased in value by £48m, this was reflected as an increase in fixed assets and revaluation reserve on the balance sheet.

Since the completion of the audit we have discussed an approach with the

Council to fixed asset valuations to be applied in the 2009/10 accounts and will continue to work with officers to ensure that appropriate valuations are reflected on the balance sheet at 31 March 2010.

Pension Fund Audit

From 2008/09 the Council has also been required to publish a separate Pension Fund Annual Report and this was audited in October 2009. We issued a separate Report to those charged with Governance (ISA (UK&I) 260) on the Pension Fund Annual Report and Accounts in which we reported our findings. We are pleased to report there were no significant issues identified from this work.

Use of Resources

A new Use of Resources assessment was introduced for 2008/09 which requires us to assess the overall arrangements that the Council has in place in the following three areas:

- Managing finances
- Governing the business
- Managing Resources.

Value for Money is no longer assessed as a separate theme within the framework as the KLoEs in the three themes collectively comprise the

auditor's assessment of value for money in the use of resources. Financial management is now focused within one theme.

The new framework is generic and applicable to all local authorities, police, fire and rescue authorities and PCTs. There is a wider focus which includes the use of natural and human resources (although the human resources KLoE will not be assessed until 2009/10). There is also a greater focus on achievements, outputs and outcomes and what difference arrangements have made for the local people. The assessment is designed to be more challenging for the Council and auditors.

We evaluated the arrangements against criteria set by the Audit Commission in underlying Key Lines of Enquiry (KLoE) and reached a score for each based on the following:

- 1 Failure to meet minimum requirements – inadequate performance
- 2 Meets only minimum requirements – performs adequately
- 3 Exceeds minimum requirements – performs well
- 4 Significantly exceeds requirements – performs excellently.

The scores for each KLoE then determines the overall score for each theme, using rules issued by the Commission. The Commission in turn then determines an overall score for the Council.

In the following section we have set out a high level summary of our findings for each theme under the Use of Resources assessment.

Managing Finances

We have scored the KLoEs for managing finances reporting as follows:

Managing Finances- focusing on sound and strategic financial management		Score
Key Line of Enquiry		
1.1	The Council plans its finances effectively to deliver its strategic priorities and to secure sound financial health	3
1.2	The Council has a sound understanding of its costs and performance and achieves efficiencies in its activities	3
1.3	The Council's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	3
Overall score		3

The Council has a strong focus on sound financial management and this is reflected in the scores awarded, which highlight that it is performing well in this area.

Financial management is embedded within the Council's culture - the Council's financial planning is closely aligned to that of the strategic and corporate planning processes and it has robust medium and longer term financial plans in place which are focused on the Council's key priorities.

The Council clearly understands its costs and these are linked to performance to ensure that the key drivers of costs are monitored and understood. Financial information is a key aspect of all decisions that are made at the Council and the savings targets that it has set have been exceeded.

The Council has met the deadlines for preparing and publishing its accounts and the audit has confirmed the overall quality of the working papers and the processes in place to prepare the financial statements.

Governing the business

We have scored the KLoEs for governing the business as:

Governing the business – focusing on strategic commissioning and good governance		Score
Key Line of Enquiry		
2.1	The Council commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	3
2.2	The Council produces relevant and reliable data and information to support decision making and manage performance	2
2.3	The Council promotes and demonstrates the principles and values of good governance	3
2.4	The Council manages its risks and maintains a sound system of internal control	3
Overall score		3

This theme considers how well the Council governs itself and commissions services that provide value for money and delivers better outcomes for local people.

The Council has a clear understanding of what its community needs and with its partners it has developed a sustainable communities strategy, Building a Better Bromley. The Council is aware of the inequalities and diversity within its communities and is taking action to address these.

The Council's governance structure is clearly set out and the Council has a code of conduct for its members. The Council has a clear vision with its partners, and works closely with its main partners through the Local Strategic Partnership (LSP). Risk management arrangements are in place and risks are identified and mitigated against and the Council has a sound system of internal control.

The Council achieved a score of 2 on KLoE 2.2. The Council has arrangements in place to collect and secure data and the Council has made some good progress on information governance, however, the new Data Quality Policy and underlying processes need to be embedded throughout the organisation and the work to identify data sets and data set owners needs to be completed before a higher score could be achieved.

Managing resources

We have scored the KLoEs for managing resources as:

Managing resources – focusing on the effective management of natural resources, assets and people		Score
Key Line of Enquiry		
3.1	The Council makes effective use of natural resources	3
3.2	The Council manages its assets effectively to help deliver its strategic priorities and service needs	3
3.3	The Council plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	N/a
Overall score		3

Under the old style Use of Resources assessment the Council was not assessed on its use of natural resources therefore it has done well to achieve a score of 3. The Council is delivering its strategy to reduce its own use of natural resources and its impact on the environment and understands where it can most effectively intervene to reduce its 'carbon footprint'. It has now been monitoring progress in reducing its use of natural resources for the last 2 years and has seen a decline in its carbon output since the base-line position was established in 2006/07.

The Council manages its assets effectively and regularly reviews asset usage to improve services, value for money or to release funds for other projects and programmes.

Conclusion on Use of Resources

We were required to issue a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

We are pleased to report that we issued an unqualified conclusion on the Council's arrangements for its Use of Resources on 24 September 2009.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.

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

Treasury Management

As part of our work on Use of Resources we carried out a programme of work on Treasury Management. This piece of work was mandated by the Audit Commission.

The work required us to review the Council's portfolio of investments at 31 March 2009 and consider whether the position was consistent with the Council's Treasury Management policy and the extent to which transactions have been consistent with the approach approved by members.

The Council had £5m invested in the Icelandic bank, Heritable Bank, at the time when this organisation went into administration. We were required to report this to the Audit Commission but did not conclude that the Council was in breach of its policy with this investment. During our audit work we did recommend that the Council may wish to consider undertaking an independent review of its Treasury Management function.

We did not identify any further issues to report in performing this work.

Members' Allowances

As part of our work on Use of Resources we reviewed the Council's scheme for members' allowances. We reviewed whether the Council is complying with the regulations applying to Members' Allowances schemes, and whether they have made the required disclosures in respect of the scheme.

We did not identify any issues in performing this work.

Matters affecting future accounting periods

Transition to International Financial Reporting Standards (IFRS)

CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009. The Council will need to have values for assets and transactions as they should be recognised under IFRS from this date.

The Council will need to ensure that it has a good grasp of the changes to accounting requirements under the new Code, and that it has robust plans in place to enable collection and processing of the information needed to comply with the new Code.

In our experience the key features of a successful IFRS conversion project have proven to be:

- Completed impact analysis and comprehensive conversion plans;
- The commitment of key stakeholders in the organisation;
- Operational steering and technical groups;
- Cabinet/audit committee oversight;
- Regular progress reporting against the plan;

- The necessary project management resources; and
- Appropriate and timely training for all members and officers with IFRS involvement.

PwC performed an impact assessment for the Council on the likely impact of IFRS on the financial statements; this included a workshop for Council staff and a report setting out the top work streams and a suggested action plan.

We will continue to work with the Council throughout the year to ensure that officers are aware of the main differences between IFRS and UK GAAP and we will review any proposed solutions to accounting issues proposed by the Council.

By working closely with the Council on this it will help to ensure a smooth transition to IFRS and minimal disruption when it comes to preparing and auditing the 2010/11 financial statements.

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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