

London Borough of Bromley

Annual Audit Letter

2012/13

Government and
Public Sector

October 2013

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

In April 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.

An audit is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Introduction

The purpose of this letter

This letter summarises the results of our 2012/13 audit work for members of the London Borough of Bromley (“the Authority”).

We have already reported the detailed findings from our audit work to the General Purposes and Licensing Committee in the following reports:

- Audit opinion for the 2012/13 financial statements, incorporating opinion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- London Borough of Bromley ISA 260 Report to those charged with Governance (ISA (UK&I) 260);
- Audit report on the London Borough of Bromley Pension Fund Annual Report 2012/13; and
- London Borough of Bromley Pension Fund ISA 260 Report to those charged with Governance (ISA (UK&I) 260).

We expect to issue the Annual Certification Report for 2012/13 in March 2014.

The matters reported here are the most significant for the Authority.

Scope of Work

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.

London Borough of Bromley

As an administering Authority of a pension fund, the Authority is also responsible for preparing and publishing Accounting Statements for the London Borough of Bromley Pension Fund.

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2013 and 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.

We met our responsibilities as follows:

Audit Responsibility	Results	Audit Responsibility	Results
<i>Perform an audit of the statement of accounts and pension fund accounting statements in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).</i>	<p>▶ We performed an audit of the statement of accounts and pension fund accounting statements.</p> <p>We issued an unqualified opinion for both on 30 September 2013.</p>	<i>Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</i>	▶ We reviewed the Annual Governance Statement 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.
<i>Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.</i>	<p>▶ We undertook our work on the Whole of Government Accounts consolidation pack. The assurance statement was certified on 30 September and the audited pack was submitted on 2 October 2013.</p> <p>We found no areas of concern to report in this context.</p>	<i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i>	▶ No matter was noted in the course of the audit that required a report in the public interest.
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	▶ We issued an unqualified conclusion on 30 September 2013 in respect of the two criteria detailed by Audit Commission requirements.	<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	▶ We are currently responding to an objection to the financial statements. No other action has to date been necessary in relation to our responsibilities under the Audit Commission Act.

Audit Responsibility Results

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.



Our audit cannot be formally concluded as at October 2013 and a certificate issued in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

This is because there is an outstanding matter in relation to an objection on the 2012/13 statement of accounts that relates to the Authority's parking enforcement contract and the legality of its performance targets.

We will update the Audit Sub-Committee when we are able to do so.

Issue an opinion on the pension fund annual report.



We issued an unqualified opinion on the Authority's pension fund annual report on 30 September 2013.

We have detailed the findings from the audit of the Authority, including matters relating to the audit of the Statement of Accounts, that we wish to draw to your attention.

Audit Findings

Statement of Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 30 September 2013.

We identified four accounting issues during the course of our work that we wish to draw to your attention.

Valuation of property, plant and equipment and investment properties

The Authority utilised the expertise of Wilks, Head & Eve LLP ("WH&E") in evaluating the valuation of the Authority's property, plant and equipment and investment properties for the first time this year. In prior years, this valuation had been performed by an in-house valuation team.

Our internal valuation experts reviewed the assumptions and methodologies used by WH&E. They had comments on how WH&E had deducted purchaser costs when valuing commercial investment properties and the approach of apportioning land values as a percentage of building costs in their valuation.

We considered these approaches, and do not consider there to be a material impact for either these departures of methodology.

Depreciation of fixtures and fittings

The way the Authority accounts for the capitalisation of fixtures and fittings is not in line with Accounting Standards. Upon discussing this with management and performing further work, we are comfortable that the potential impact on

the balance sheet and comprehensive statement of income and expenditure is immaterial.

Related parties

We performed detailed testing over transactions with related parties to the Authority, which identified one additional relationship that was not previously identified. Upon further work, transactions were identified, and subsequently disclosed in the financial statements by management.

Pensions liability

The Authority's pension liability is the most significant estimate in the financial statements. The Pension Fund is undergoing its triennial valuation in 2013 and it is expected to result in a further increase to the liability. For 2012/13, we gained assurance over the assumptions underlying the pension liability, and we validated the data supplied to the actuaries which was used in calculating the liability.

Economy, efficiency and effectiveness

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2012/13, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, 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.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified conclusion in respect of the two criteria above.

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.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The assurance statement was certified on 30 September and the audited pack was submitted on 2 October 2013. We found no areas of concern to report in this context.

Certification of Claims and Returns

We presented our most recent Annual Certification Report for 2011/12 to the Audit Sub-Committee in March 2013. We certified three claims with a net worth £228.6 million. In one case a qualification letter was required to set out the issues arising from the certification of the claim.

We will issue the Annual Certification Report for 2012/13 in March 2014.

In accordance with ISA (UK&I) 265 we are required to communicate deficiencies in internal control to those charged with governance. These deficiencies were identified from our interim and year-end procedures.

Summary of Recommendations

Recommendation	Management Response	Target Implementation Date
Main audit		
<p><u>Upgrade of Oracle</u></p> <p>We recommend that all testing documentation is retained when an upgrade is performed to a key financial system to ensure a sufficient audit trail is retained.</p>	<p>Testing of all processes and interfaces were carried out as well as full reconciliations of pre and post upgrade balances and no issues were identified regarding the migration of data during the upgrade. All documentation to support the testing and reconciliations, as well as the issue lists that were maintained throughout the upgrade with the external contractor assisting Bromley, were stored on a shared drive (this information has been retained).</p> <p>Although this was not a system re-implementation, it was purely an upgrade of the existing system, it is accepted that a more formal process / sign-off could have been followed and this will be taken into account for any future upgrades.</p>	On-going.
<p><u>Bank mandate</u></p> <p>We recommend the Authority reviews the bank mandate of the bank account out of which payments are made on a regular basis.</p>	<p>A revised signature mandate has been sent to the bank and will be kept updated for any future changes</p>	<p>Completed.</p> <p>It will be monitored on an on-going basis going forward.</p>
Pension fund		
<p><u>Use of pension scheme bank account</u></p> <p>We recommend that the Fund take the appropriate action in order to ensure that the bank account becomes fully operational in accordance with the above regulation. We note that most LGPS we audit have now fully implemented and are using a separate bank account for their pension funds.</p>	<p>The use of a separate account will be reviewed and considered with a view to full implementation.</p>	1 April 2014

Recommendation	Management Response	Target Implementation Date
<p><u>Observation on bank mandate</u> We recommend that the mandate is amended appropriately and is reviewed regularly in future and when relevant personnel leave to ensure signatories remain valid.</p>	<p>The bank mandate was sent to HSBC on 19 August 2013 and is now in place. This will be kept up to date to reflect any future changes in personnel.</p>	<p>Completed. It will be monitored on an on-going basis going forward.</p>
<p><u>Monitoring of timeliness of contributions</u> We have agreed with management that they will discuss this with Liberata with a view to putting a control in place in this area, and also to reinforce to schools paying by cheque that BACS is preferable.</p>	<p>These actions are scheduled to be completed.</p>	<p>1 October 2013</p>

We are required to provide an update of our fee proposals for 2012/13 against the actual outturn for 2013/13.

Final Fees

Final Fees for 2012/13

We reported our fee proposals in our audit plan in March 2013.

Our actual fees were in line with our proposals at £200,418, with the exception of the points noted below.

The fees are not on a like for like basis as the 2011/12 fee includes a mandatory recharge paid to the Audit Commission, which was not required in 2012/13.

Our fees charged were therefore:

	2012/13 outturn (£)	2012/13 fee proposal (£)	2011/12 final outturn (£)
Audit work performed under the Code of Audit Practice*	156,168	156,168	260,280
- Statement of accounts			
- Local value for money conclusion			
- Whole of government accounts			
Pension fund audit	21,000	21,000	35,000
Certification of claims and returns**	23,250	23,250	38,750
TOTAL	200,418	200,418	334,00

Please note the following points:

*Our work to consider the outstanding matter in relation to an objection on the 2012/13 statement of accounts is on-going. We will need to agree the additional fees in relation to this with the Authority and the Audit Commission once we have made our determination.

**Our fee for certification of claims and returns is yet to be finalised for 2012/13 as the work is on-going. The fee stated is an estimate. The fee will be confirmed to the Audit Sub-Committee in March 2014 within the 2012/13 Annual Certification Report.



In the event that, pursuant to a request which the London Borough of Bromley has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The London Borough of Bromley agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the London Borough of Bromley shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the London Borough of Bromley discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for the London Borough of Bromley and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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