

# *London Borough of Bromley*

## *Report to those charged with governance*

Report to the General Purposes and Licensing Committee of the Authority on the audit for the year ended 31 March 2014 (ISA (UK&I) 260) - DRAFT

Government and  
Public Sector

August 2014

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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.*

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*An audit of the Statement of Accounts 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.*

# Executive summary

## Background

This report tells you about the significant findings from our audit of the London Borough of Bromley ('the Authority') and the London Borough of Bromley Pension Fund ('the Pension Fund'). We presented our plan to the Audit Sub-Committee in March 2014; we have reviewed the plan and concluded that it does not remain appropriate. The following changes have been made to our risk assessment upon receipt of the financial statements for 2013/14, as detailed on page 3:

- A significant risk has been noted for the financial resilience of the Authority as part of our consideration of the Value for Money criteria after considering the Authority's medium term financial strategy, which identifies a significant budget gap due to cost pressures and funding reductions.

## Audit summary

- We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts on 22 September 2014.
- The key outstanding matters, where our work has commenced but is not yet finalised, are:
  - Main audit
    - receipt of outstanding bank and investment confirmations
  - Pension Fund
    - valuation of pooled investments; and
    - contributions – timing and controls testing
  - Both
    - senior review of audit working papers;
    - approval of the Statement of Accounts and letters of representation; and
    - completion procedures including subsequent events review.
- There are four key judgments which require the General Purposes and Licensing Committee's ('GP&L') attention – further details are set out commencing on page 10.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you on 17 September 2014. Attending the meeting from PwC will be Janet Dawson, Katy Elstrup and/or Charles Martin.



## *Acknowledgements*

We would like to thank Pete Turner, Tracey Pearson, Pinny Borg, Martin Reeves and their team for the considerable help and assistance provided to us during the audit.

# Audit approach

Our audit approach was set in our audit plan which we presented to the Audit Sub-Committee in March 2014.

Since we communicated our audit plan, we have amended our audit approach to reflect the following changes:

Risk	Risk level	Response to new risk/change in risk level	Reason for change
Value for money (financial resilience)	Original – Normal	The Authority, like other Local Authorities, is facing increasing financial pressures and significant challenges to identify the levels of savings they require over the next three to five years.	As part of our value for money responsibilities, we are required to consider the financial resilience of the Authority into the foreseeable future. This definition of foreseeable future has been expanded by the Audit Commission to include the medium term (i.e. 3 to 5 years) rather than the next 12 months.
	Revised – Significant	At present, as per the Authority’s medium term financial strategy, there exists a significant “budget gap”, culminating in a gap of £53.1m in 2017/18 reported to Executive in February 2014.	As the medium term financial strategy noted by the Authority is significant and the identified “budget gap” is in the progress of being addressed, we have reassessed the risk level concluding it to be significant.  Full detail on the work performed against this risk is detailed on page 7.

We have summarised on the next page the significant risks we identified in our audit plan for both the main audit and the Pension Fund, the audit approach we took to address each risk and the outcome of our work.

## Main Authority audit

Risk	Categorisation	Audit approach	Results of work performed
<b>Risk of management override of controls</b>	Significant	<p>ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p> <p>We have performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries using Computer Assisted Audit Techniques;</li> <li>• Reviewed accounting estimates for bias and evaluated whether circumstances producing any bias, represent a risk of material misstatement due to fraud;</li> <li>• Evaluated the business rationale underlying significant transactions; and</li> <li>• Performed ‘unpredictable’ procedures. This year we compared the bank details between the Authority’s employees and the Authority’s suppliers to ensure there were no matches. Also, we confirmed the existence of a sample of the Authority’s employees.</li> </ul>	<p>We did not identify any issues to report to you as a result of our work.</p>

Risk	Categorisation	Audit approach	Results of work performed
<b>Risk of fraud in revenue recognition</b> ▶	Significant	<p>Under ISA (UK&amp;I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition.</p> <p>We have obtained an understanding of key revenue controls.</p> <p>We have evaluated and tested the accounting policy for income recognition to ensure that it is consistent with the requirements of the Code.</p> <p>We have also performed detailed testing of revenue transactions, including deferred revenue, focussing on the areas we considered to be of greatest risk.</p>	We did not identify any issues to report to you as a result of our work.
<b>Risk of fraud in expenditure recognition</b> ▶	Significant	<p>Under ISA (UK&amp;I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure for Local Authorities as well.</p> <p>We have obtained an understanding of key expenditure controls.</p> <p>We have evaluated and tested the accounting policy for expenditure recognition to ensure that it is consistent</p> <p>We have also performed detailed testing of expenditure transactions, focussing on the areas we considered to be of greatest risk.</p>	We did not identify any issues to report to you as a result of our work.

Risk	Categorisation	Audit approach	Results of work performed
<b>Valuation of investment properties</b>	Significant	<p>We:</p> <ul style="list-style-type: none"> <li>agreed the source data used by your valuer to supporting records;</li> <li>assessed the work of your Valuer through use of our own internal valuation experts; and</li> <li>agreed the outputs to your fixed asset register and financial statements.</li> </ul> <p>Where assets were not re-valued in year, we reviewed your impairment assessment, and evaluated whether your assets were held at an appropriate value in your financial statements as at 31 March 2014.</p>	<p>We did not identify any issues to report to you as a result of our work.</p>
<b>Value for money (financial resilience)</b>	Significant	<p>We:</p> <ul style="list-style-type: none"> <li>reviewed the Authority’s budget monitoring process to identify any areas of concern; and</li> <li>considered the accounting implications of any savings plans and had discussions about any new and unusual proposals with management. In particular, we considered the impact of the efficiency challenge on the recognition of both income and expenditure.</li> </ul> <p>From your medium term financial strategy, we reviewed:</p> <ul style="list-style-type: none"> <li>how you have managed your 2013/14 savings programme;</li> <li>your arrangements to review the value for money which your services provide; and</li> <li>the adequacy of your planned level of reserves and contingencies against your stated policy and the level of future risk in delivering the medium term financial strategy.</li> </ul>	<p>We have raised a recommendation as part of our Value for Money consideration of the Authority to ensure that actions are underway to address the “budget gap” as identified in the medium term financial strategy up until 2017/18. Further details can be found on page 16.</p>



## Pension Fund audit

Risk	Categorisation	Audit approach	Results of work performed
<b>Risk of management override of controls</b>	Significant	<p>ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p> <p>We have performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries using Computer Assisted Audit Techniques;</li> <li>• Reviewed accounting estimates for bias and evaluated whether circumstances producing any bias, represent a risk of material misstatement due to fraud;</li> <li>• Evaluated the business rationale underlying significant transactions; and</li> <li>• Performed ‘unpredictable’ procedures.</li> </ul>	We did not identify any issues to report to you as a result of our work.
<b>Valuation of diversified growth funds</b>	Elevated	<p>We:</p> <ul style="list-style-type: none"> <li>• reviewed the investment portfolio to consider the extent of diversified growth funds held; and</li> <li>• agreed the value assigned to the diversified growth funds by the fund managers.</li> </ul>	We did not identify any issues to report to you as a result of our work.

### *Intelligent scoping*

In our audit plan presented to the Audit Sub-Committee in March 2014, we reported our planned overall materiality which we used in planning the overall audit strategy.

Our materiality varied upon receipt of the draft 2013/14 financial statements as our planned overall materiality was based upon the 2012/13 financial statements. It is confirmed the change has not had a significant effect on our testing strategy for either the main audit or the Pension Fund.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do not expect to have a material effect on the financial statements even if accumulated.

We agreed the de minimis threshold with the Audit Sub-Committee at its meeting in March 2014. It is confirmed this has not changed from our audit plan presented to the Audit Sub-Committee in March 2014.

Our revised levels are as follows:

	Benchmark	Overall materiality (£)	Clearly trivial reporting de minimis (£)
Main Authority audit	2% Total Expenditure	12,941,940	650,000
Pension Fund	2% Net Assets	12,580,000	500,000

# Significant audit and accounting matters

## Financial statements

We have completed our audit, subject to the following outstanding matters:

### Main audit

- receipt of outstanding bank and investment confirmations.

### Pension Fund

- valuation of pooled investments; and
- contributions – timing and controls testing.

### Both

- senior review of audit working papers;
- approval of the Statement of Accounts and letters of representation; and
- completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the Statement of Accounts and their approval of them we expect to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we have also examined the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts.

## Accounting issues

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

We identified four accounting issues during the course of our work that we wish to draw to your attention. These all relate to the main audit and no issues are raised here with regards to the Pension Fund.

- Medium term financial strategy;
- Depreciation of fixtures and fittings;
- Pension liability; and
- Changes to IAS19.

## Medium term financial strategy

As a result of the Local Government Financial Settlement, the Authority has set out a financial strategy from 2014/15 to 2017/18. There is a notable “budget gap” in the financial forecast up until 2017/18 as reported to the Executive in February 2014 and detailed below:

Financial year	Budget gap (£m)
2014/15	0.1
2015/16	7.9
2016/17	30.2
2017/18	53.1

We are aware the Authority is in the process of determining actions to reduce the Authority’s medium term “budget gap”

However, there are still outstanding issues and areas of uncertainty remaining in closing the budget gap. Therefore, we have made a recommendation as part of our Value for Money duties on page 16 to management to ensure actions are underway. We have also increased this to a significant risk within our audit risk assessment.

## Depreciation of fixtures and fittings

The Authority accounts for fixtures and fittings by capitalising these when they are initially acquired as part of a new-build or the fit out of a building but then not charging depreciation on these assets in subsequent years.

Instead, subsequent expenditure on fixtures and fittings is charged directly to the comprehensive income and expenditure statement ('CI&E') and the value of the fixtures and fittings initially capitalised moves in accordance with re-valuation movements on the buildings in which the fixtures and fittings are located.

Whilst this is not the correct way to account for fixtures and fittings we have discussed this with management and are comfortable that the potential impact on the balance sheet and CI&E is immaterial. The balance on the re-valuation reserve in relation to fixtures and fittings is £nil and the charge to the CI&E for spend on fixtures and fittings in 2013/14 was £0.9m which is an immaterial balance.

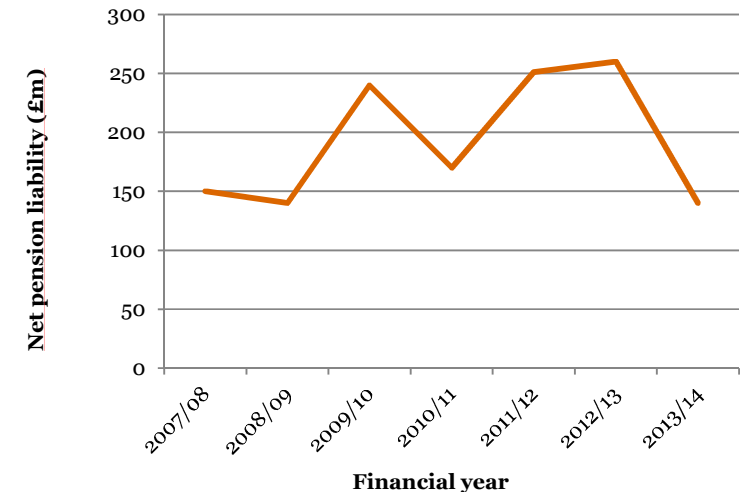
## Pensions liability

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the London Borough of Bromley Pension Fund. Your net pension liability at 31 March 2014 was £140m (2013: £260m). The principle reason for the reduction is outcome of the 2013 triennial valuation and how the assets of the Pension Fund have increased in value after improved market conditions.

The 2013 triennial valuation has been finalised and the effect has been to calculate a new deficit position (82% funded), set a common employer contribution rate of 15.3% and an annual lump sum past-deficit contribution of £5.9m from 1 April 2014 to recover that deficit over 15 years.

The chart below shows the significant movement in your net pension liability over the last few years.

Authority net pension liability between 2007/08 and 2013/14



We utilised the work of actuarial experts to assess the assumptions underlying the pension liability and we are comfortable that the assumptions are within an acceptable range.

We validated the data supplied to the actuary on which to base their calculations, which is supplied to them by the Authority.

Lastly, we validated the value of the pension scheme assets with no issues noted.

## Changes to IAS 19 - employee benefits

From 2013/14 there have been changes to the accounting for defined benefit schemes and termination benefits. These changes have been reflected in the Authority's financial statements. We consider these have been dealt with adequately.

## *Misstatements and significant audit adjustments*

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial.

We are pleased to say that there are no uncorrected misstatements above our agreed reporting level to report for either the main accounts or the Pension Fund.

## *Significant accounting principles and policies*

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask the GP&L to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

We have reviewed the appropriateness and application of accounting policies in the Statement of Accounts, with no issues noted.

## *Judgments and accounting estimates*

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

***Continuing operations*** – There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities or for discontinued operations as

it reduces levels of service provision. We have considered this as part of our value for money work.

***Valuation of Property, Plant and Equipment*** - The Authority re-valued 20% of its land and buildings in 2013/14 in line with its accounting policy. The valuation was performed by Wilks, Head and Eve LLP. The valuation methodology includes a number of key judgements and estimates. We engaged our internal valuations experts to consider these assumptions and estimates used in the valuations and have agreed those used to be reasonable.

***Valuation of Investment Properties*** - The Authority re-valued its investment properties in 2013/14 in line with its accounting policy. The valuation was performed by Wilks, Head and Eve LLP. The valuation methodology includes a number of key judgements and estimates, including those around future income streams and property yields. We engaged our internal valuations experts to consider these assumptions and estimates used in the valuations and have agreed those used to be reasonable.

***Valuation of Pensions Liability*** - The Authority engaged the actuary Mercer Limited to estimate the value of the Pension Liability on the balance sheet at 31 March 2014. The calculation involves a number of complex judgements, including appropriate discount rates to be used, mortality rates, expected return on pension fund assets, salary changes and estimates of future retirement ages. We have considered these assumptions against actuarial guidance and have agreed those used to be reasonable.

***Recoverability of investment in Heritable Bank*** - The Authority had £5.087 million invested with the Heritable Bank at the time of the Icelandic Banking collapse. The Authority recognised an impairment of £1.64m on this investment in 2008/09, reflecting the likely recoverable amount based on CIPFA guidance at this time. As recovery estimates have improved, part-reversals of this impairment have subsequently been recognised. Since 2008/09,

£4.783m of the investment has been recovered. The remaining outstanding balance is £0.3m. The Authority holds a provision of the remaining £0.3m calculated based on current CIPFA guidance.

### *Management representations*

The final draft of the representation letter that we ask management to sign is attached in Appendix 2.

### *Financial standing*

We have not identified any material uncertainties related to events and conditions that may cast significant doubt on the entity's financial standing.

### *Related parties*

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We performed detailed testing over related parties including a public record search of Directors and Board Members to identify any additional relationships by comparing related entities to supplier and customer listings.

We did not identify any matters during the course of our work.

## *Audit independence*

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (‘PwC’) and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

### *Relationships between PwC and the Authority*

We are not aware of any relationships between PwC and the Authority that in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

### *Relationships and Investments*

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

### *Employment of PricewaterhouseCoopers staff by the Authority*

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

### *Business relationships*

We have not identified any business relationships between PwC and the Authority.

## *Services provided to the Authority*

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm’s internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Authority.

<b>Support provided by PwC</b>	<b>Value (£)</b>	<b>Threats to independence and safeguards in place</b>
<b>Certification of claims and returns</b>  Our procedures will consist of certifying the 2013/14 Housing Benefit Subsidy Claim in accordance with the certified instructions issued by the Audit Commission.	14,520	<b>Self-Review Threat:</b> The audit team will conduct the grant certification and this has arisen due to our appointment as external auditors.  There is no self-review threat as we are certifying management completed grant returns and claims. <b>Self-Interest Threat:</b> As a firm, we have no financial or other interest in the results of the Authority.  We have concluded that this work does not pose a self-interest threat. <b>Management Threat:</b> PwC is not required to take any decisions on behalf of management as part of this work. <b>Advocacy Threat:</b> We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.  <b>Familiarity Threat:</b> Work complements our external audit appointment and does not present a familiarity threat. <b>Intimidation Threat:</b> We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost

integrity and professionalism.

At the date of this report we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

#### *Fees*

The analysis of our audit and non-audit fees for the year ended 31 March 2014 is included on page 23.

#### *Services to Directors and Senior Management*

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

#### *Rotation*

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

For 2013/14, this is Janet's Dawson sixth year as engagement leader. We therefore applied to the Audit Commission for the two year extension for as engagement leader, which was approved.

#### *Gifts and hospitality*

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Executive, senior management or staff.

#### *Conclusion*

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the GP&L to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.



## *Annual Governance Statement*

Local Authorities are required to produce an Annual Governance Statement ('AGS'), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework 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.

## *Economy, efficiency and effectiveness*

Our value for money code responsibility requires 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.

The Audit Commission guidance includes 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.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We anticipate issuing an unqualified value for money conclusion.

However, we have identified the following matters which we wish to bring to your attention are:

London Borough of Bromley

- The Authority will need to ensure actions are underway to resolve the "budget gap" as identified by its medium term financial strategy up until 2017/18; and
- We have also increased this to a significant risk within our audit risk assessment.

## *Other reporting requirements*

In auditing the Statement of Accounts of a Local Authority, the auditors must consider:

- Whether we need to report on any questions or objections made to us as auditors.

We have been considering an objection in relation to the 2012/13 financial statements that relates to the Authority's parking enforcement contract and the legality of its performance targets.

This resulted in our 2012/13 audit not being able to formally conclude 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.

We will provide a verbal update to Members of the GP&L as to the status of the work over the objection.

# Internal controls

## Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the AGS.

## Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

## Summary of control recommendations – Main Authority audit

Deficiency	Recommendation	Management's response
<p><b>Use of surveyors</b></p> <p>At year end, the surveyors' team provide the finance team with details of costs incurred up to year end which have not yet been invoiced. These amounts are accrued in the balance sheet as creditors and expensed in the comprehensive income and expenditure statement ('CI&amp;E').</p> <p>Testing identified one error where works were accrued based upon the total costs to be incurred (£67k) rather than the costs incurred up to year end (£16k), leading to a misstatement of £51k.</p> <p>The control that should identify such accruals is the surveyors' team providing estimates of works completed at year end to ensure the finance team accrue for such costs in the financial statements.</p>	<p>We recommend management should review the controls in place to account for development accruals at year end, by providing refresher training to surveyors to ensure they are comfortable with the accruals concept and the importance of only providing costs incurred up to year end.</p>	<p>Refresher training will be provided in advance of the 2014/15 closedown to ensure relevant officers are aware of year end accounting requirements regarding accruals.</p> <p>Responsible Officer – Senior Accountant</p> <p>Timescale – 31 March 2015</p>

## Summary of control recommendations – Pension Fund

Deficiency	Recommendation	Management's response
<p><b>Use of Pension Fund bank account</b></p> <p>The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required that all pension schemes have their own bank account effective 1 April 2011. Specifically the regulations state the following:</p> <p>“On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation—</p> <p>(a) all monies held by the authority on that date; and (b) all monies received by it on or after that date for the purpose of its pension fund.”</p> <p>Although a separate bank account has been set up for the Fund, it is not being used. Instead transactions with the Authority and admitted bodies are being accounted for by using journal allocations. The cash attributable to the Fund in relation to such transactions is therefore still held in the Authority's bank account.</p> <p>As a result, the Fund is not fully compliant with the requirements of the legislation.</p> <p>This is a point consistent with the prior year.</p>	<p>We understand from speaking with management that a cost / benefit analysis was undertaken during the year to determine if it would be effective to use the Pension Fund bank account as required. It was decided that such arrangement would be not be efficient or economical.</p> <p>We recommend that the Authority continue to assess the rationale for not using the bank account of the fund. This is because technically such an account should be as per the cited regulations.</p>	<p>A cost/benefit analysis was carried out during 2013/14 and it was reviewed during the 2013/14 closedown.</p> <p>It remains the view of management that there is little to be gained from using a separate Pension Fund bank account. Management are satisfied that our robust coding structure sufficiently separates out the pensions transactions in an effective manner. This will continue to be reviewed in light of forthcoming changes to pension fund governance arrangements.</p> <p>Responsible Officer – Principal Accountant</p> <p>Timescales – Ongoing</p>
<p><b>Bank mandate</b></p> <p>When reviewing the Fund's bank mandate, we noticed no individual on it who is no longer at the London Borough of Bromley.</p> <p>This potentially increases the level of fraud risk.</p> <p>Management were aware of this point and are in the process of updating the bank mandate.</p>	<p>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 mandate has been updated to reflect the change in personnel and will be maintained for any further staffing changes.</p> <p>Responsible Officer – Principal Accountant</p> <p>Timescales – Complete</p>
<p><b>Pensions leavers on the administration system</b></p> <p>When an officer leaves the Authority, or for any</p>	<p>We recommend that the criteria used to create the daily ResourceLink reports are updated to reflect the issues identified through our testing.</p>	<p>To remove the risk of running this manual process daily Liberata have implemented a process of running a weekly report. This task will be added to the Control List which is</p>

other reason ceases to be an active member of the pension scheme, the Pension Fund's administration system, Altair, should be updated to reflect this change. This system is used by the actuary in determining their Pension Fund balances.

Daily reports are run from the payroll system, ResourceLink, and sent to the Pension Fund administration team to enable them to update Altair.

Our testing identified that these reports did not identify all leavers and so the Pension Fund administration system was not up to date.

This means that the scheme's administration records may not be up to date. In addition, members who cease to become active members may not receive information about their financial position as a result of previously being a member of the scheme on a timely basis.

checked on a daily basis.

At year end Liberata will continue to upload a file taken from ResourceLink so a check is carried out that the volume of leavers matches the Pension database.

Responsible Officer – Liberata Pensions

Timescale – Immediate

# Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

## Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

## Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

## Responsibility of the GP&L

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

## Your views on fraud

In our audit plan presented to the Audit Sub-Committee in March 2014 we enquired:

- whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- what fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- what role you have in relation to fraud?
- what protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

## Conditions under which fraud may occur

**Management or other employees have an incentive or are under pressure**

Incentive / pressure



### **Opportunity**

Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls

### **Rationalisation/attitude**

Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

# Fees update

## Fees update for 2013/14

We reported our fee proposals in our audit plan in March 2014.

We have varied our fee because:

- The main audit fee has increased by £3,150.

During 2013/14, the Audit Commission stated that we were not required to certify the scheme regarding National Non Domestic Rates Return (LA01) or the Council Tax Benefit element as part of the Housing Benefit Subsidy Claim (BEN01).

In prior years, we relied upon this work as part of work to audit the Authority's Statement of Accounts. Therefore, in 2013/14, we have had to obtain audit comfort over Business Rates income and Council Tax Benefit expenditure in the Statement of Accounts from additional audit procedures.

The fee is based upon the length of fieldwork, which is assumed to be the same as prior years. However, there is no need to perform the planning and reporting procedures as when performing certification work. Therefore, this element has been excluded.

- The certification fee has reduced by £4,980.

The fee for the certification of claims and returns in 2013/14 relates to the certification of just the Housing Benefit Subsidy Claim.


Therefore, following on from the point above, the fee has been reduced to reflect the removal of Council Tax Benefit from the scheme as we not required to certify this element in 2013/14 as part of the Housing Benefit Subsidy Claim.

Our fees to be charged were therefore:

	2013/14 outturn (£)	2013/14 fee proposal (£)
Audit work performed under the Code of Audit Practice	159,318	156,168
- Statement of Accounts		
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources		
- Whole of Government Accounts		
Pension Fund	21,000	21,000
Certification of claims and returns	14,520	19,500
<b>Total audit code work</b>	<b>194,838</b>	<b>196,668</b>

We have been asked to perform an Affordable Housing Programme ('AHP') compliance review work which falls outside of the Code of Audit Practice requirements. We are currently discussing the proposed scope and fee of the work with management at the time of writing this report.

Our fee for certification of claims and returns is yet to be finalised for 2013/14 as our work is ongoing at the time of writing this report. It will be reported to the Audit Sub-



Committee in March 2015 within the *Certification Report to Management* in relation to 2013/14 claims and returns.

Lastly, the work regarding the objection to the 2012/13 financial statements is ongoing and therefore the fee for this is not finalised. At the time of presenting this report, the total cost to date for this work is £20k.



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# *Appendices*

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# ***Appendix 1: Summary of uncorrected misstatements***

## ***Main Authority audit***

We are pleased to report that we do not have any misstatements which remain unadjusted.

## ***Pension Fund audit***

We are pleased to report that we do not have any misstatements which remain unadjusted.

### **Uncorrected disclosure adjustments**

As part of our audit work we have reviewed, and tested, the material disclosures in the financial statements to ensure they complied with the relevant guidance.

We identified no significant issues as part of this work.

However, we have provided below a disclosure item that we asked management to adjust but it remains unadjusted. It is stated as:

- The full disclosures around risks are required in the Pension Fund financial statements. While such risks are disclosed in the Pension Fund Annual Report, they are also required in the Pension Fund financial statements.

Management have considered the disclosure adjustment and have determined not to amend it in the 2013/14 Pension Fund financial statements. Instead, management have confirmed they will look to include this disclosure for the 2014/15 Pension Fund financial statements.

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## ***Appendix 2: Letter of representation***

The representations contained in the representation letter are consistent with those in the prior year including specific representations on the use of experts. There is also an additional appendix this year on related parties and related party transactions.

### ***Representation letter***

PricewaterhouseCoopers LLP  
7 More London Riverside  
SE1 2RT

Dear Sirs

#### **Representation letter – audit of the London Borough of Bromley’s (“the Authority”) Statement of Accounts for the year ended 31 March 2014**

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2014 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14.

I acknowledge my responsibilities as Director of Finance for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the Authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

#### ***Statement of Accounts***

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the

Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts give a true and fair view in accordance therewith.

- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.

### ***Information provided***

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the Authority's auditors, are aware of that information.
- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

### ***Accounting policies***

I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the Authority's particular circumstances.

### ***Fraud and non-compliance with laws and regulations***

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the Statement of Accounts.

- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the Authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

The Authority pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

### ***Related party transactions***

I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

### ***Employee benefits***

I confirm that we have made you aware of all employee benefit schemes in which employees of the Authority participate.

### ***Contractual arrangements/agreements***

All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the Statement of Accounts, have been disclosed to you.

### ***Litigation and claims***

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the Statement of Accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### ***Taxation***

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the Authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Authority or any associated company for whose taxation liabilities the Authority may be responsible.

### ***Using the work of experts***

I agree with the findings of Wilks, Head & Eve LLP ("WH&E"), experts in evaluating the valuation of investment property and property, plant and equipment and Mercers LLP, experts in evaluating the valuation of the net pensions liability and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

### ***Pension fund assets and liabilities***

All known assets and liabilities including contingent liabilities, as at the 31 March 2014, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2014 have been properly valued and that valuation incorporated into the Statement of Accounts.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the Authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.

### ***Pension fund registered status***

I confirm that the London Borough of Bromley Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

### ***Bank accounts***

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

### ***Subsequent events***

Other than as described in the Statement of Accounts, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the Statement of Accounts or in the notes thereto.

### ***Retirement benefits***

- All significant retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the Authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.
- The Authority participates in the Teachers' Pension Scheme that is a defined benefit scheme. I confirm that the Authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.

### ***Provisions***

- Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the Statement of Accounts and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Authority's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.
- Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the Statement of Accounts.

### ***Assets and liabilities***

- The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

### ***Disclosures***

- Where appropriate, the following have been properly recorded and adequately disclosed in the Statement of Accounts:
  - The identity of, and balances and transactions with, related parties.
  - Losses arising from sale and purchase commitments.
  - Agreements and options to buy back assets previously sold.
  - Assets pledged as collateral.
- I confirm that the Authority has recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.



- I confirm that the Authority has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the Statement of Accounts all guarantees that we have given to third parties, including oral guarantees made by the Authority on behalf of an affiliate, member, officer or any other third party.

***Items specific to Local Government***

- I confirm that the Authority does not have plans to implement any redundancy/early retirement for which we should have made provision in the Statement of Accounts.
- I confirm that the Authority has determined a prudent amount of revenue provision for the year under the Prudential Framework.
- I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of Single Status provisions on the General Fund balance
- I confirm that the Authority has determined a proper application of the statutory provisions for the deferral of the impact of impairment losses in relation to investments held in Icelandic Banks on the General Fund balance.
- I confirm that the Authority has determined a proper application of the statutory provisions for the treatment of leases that have changed status on transition to IFRS.
- I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of accumulating compensated absences on the General Fund balance.

As minuted by the General Purposes and Licensing Committee at its meeting on 17 September 2014

.....

Director of Finance

.....

Date

.....

Chairman of the General Purposes and Licensing Committee

.....

Date

## Appendix 1 - Related parties and related party transactions

The following related parties were identified during the audit:

Age Concern Penge & Anerley	Crystal Palace Community Development Trust
Association of the British Pharmaceutical Industry	Crystal Palace Park Management Board
Beckenham Conservative Association	EISAI Europe Ltd
Biggin Hill Airport Consultative Committee	Greater London Enterprise
Bromley & Downham Youth Club	Greater London South East Scout Council
Bromley Adult Education College Governing Body	Kent Refurbishment Ltd
Bromley and Sheppard's Colleges	Liberata
Bromley Arts Council	London Borough of Bromley Pension Fund
Bromley Clinical Commissioning Group	MNOPF Trustees Limited
Bromley Economic Partnership	Orpington Town FC
Bromley Healthcare Community Interest Company	Oxleas NHS Foundation Trust
Bromley Mytime	Pro-Active Bromley
Bromley Youth Music Trust	Reddin Associates Limited
Broomleigh Housing Association (Affinity Homes Group)	Russell Mellor & Co. Ltd
Burnt Ash Primary School	Shortlands Ward Conservative Committee
CentreForum	Thomas Stringer Charity

Transactions were identified between the Authority and the following related parties:

- Age Concern Penge & Anerley
- Bromley & Downham Youth Club
- Bromley Clinical Commissioning Group
- Bromley Healthcare Community Interest Company
- Bromley Youth Music Trust
- Broomleigh Housing Association (Affinity Homes Group)
- Liberata
- London Borough of Bromley Pension Fund
- Oxleas NHS Foundation Trust



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