

London Borough of Bromley

Annual Audit Letter

2013/14

Government and
Public Sector

October 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.

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 2013/14 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 Purpose and Licensing Committee (“GP&L”) in the following reports:

- Audit opinion for the 2013/14 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- Report to those charged with Governance (ISA (UK&I) 260).

We expect to issue our audit report on the London Borough of Bromley Pension Fund Annual Report 2013/14 in November 2014.

In addition, we expect to issue the Annual Certification Report for 2013/14 in March 2015.

Lastly, the certificate remains open because there is an outstanding matter in relation to an objection on the 2012/13 Statement of Accounts.

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.

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 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued to the Audit Sub-Committee in March 2014 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 detailed on the next page.

Audit Responsibility	Results	Audit Responsibility	Results
<i>Perform an audit of the 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 22 September 2014.</p>	<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	<p>▶ We are currently responding to an objection to the 2012/13 financial statements.</p> <p>No other action has to date been necessary in relation to our responsibilities under the Audit Commission Act.</p>
<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 22 September 2014 and the audited pack was submitted on 26 September 2014.</p> <p>We found no areas of concern to report in this context.</p>	<i>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.</i>	<p>▶ Our audit cannot be formally concluded as at October 2014 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.</p> <p>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.</p> <p>We will update the Audit Sub-Committee when we are able to do so.</p>
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	<p>▶ We issued an unqualified conclusion on 22 September 2014 in respect of the two criteria detailed by Audit Commission requirements.</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>	<p>▶ 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.</p> <p>We found no areas of concern to report in this context.</p>	<i>Issue a report noting whether or not the pension fund financial statements in the pension fund annual report and accounts are consistent with those in the Authority's Statement of Accounts.</i>	<p>▶ We requested management to produce an addendum to reflect the updated guidance CIPFA provided in preparing the contents of a Pension Fund Annual Report. This was issued on 18 August 2014, which was after the pension fund financial statements and pension fund annual report had been completed.</p> <p>In accordance with the Secretary of State's covering letter, that report has been reviewed to ensure compliance with the guidance and any additional disclosures required are included in the addendum.</p> <p>We expect to issue our audit report on the London Borough of Bromley Pension Fund Annual Report 2013/14 in November 2014.</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>	<p>▶ No matter was noted in the course of the audit that required a report in the public interest.</p>		

Audit findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 22 September 2014.

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

1) 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.

2) 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.

3) Pensions liability

The Authority's pension liability is the most significant estimate in the financial statements. 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. For 2013/14, 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.

4) 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.

Use of Resources

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 2013/14, 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.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

However, we found the following matter which we wish to bring to your attention:

- 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.

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 audited pack was submitted on 26 September 2014. 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 2012/13 to those charged with governance in March 2014. We certified three claims worth £236 million. In two cases a qualification letter was required to set out the issues arising from the certification of the claim. These details were also set out in our Annual Certification Report for 2012/13. We will issue the Annual Certification Report for 2013/14 in March 2015.

Other Matters

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 provided a verbal update to members of the GP&L on 17 September 2014 as to the status of the work over the objection, explaining that the 2013/14 certificate will remain open as a result until such time where the objection is resolved.

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.

Other matters reported to those charged with governance

We have to report to those charged with governance any deficiencies in internal control that we found during the audit. Other, less significant recommendations have been brought to the attention of the Director of Finance

As part of our audit work in 2014/15, we will follow up the recommendations we have made.

Recommendation	Management response	Target implementation date
Main audit		
<p>Use of surveyors</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>
Pension fund		
<p>Use of Pension Fund bank account</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>

Recommendation	Management response	Target implementation date
<p>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>Pensions leavers on the administration system</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 checked on a daily basis.</p> <p>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.</p>	<p>Responsible Officer – Liberata Pensions</p> <p>Timescale – Immediate</p>

Final fees

Final fees for 2013/14

We reported our fee proposals in our audit plan.

We varied our fee because of the reasons below and reported our revised fees to GP&L on 17 September 2014.

- It is proposed to increase the main audit fee 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 charged were therefore:

	2013/14 proposed outturn (£)	2013/14 fee proposal (£)	2012/13 final outturn (£)
Audit work performed under the Code of Audit Practice *	159,318	156,168	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	21,000
Certification of claims and returns**	14,520	19,500	33,485
Objection***	25,400	-	-
TOTAL	220,238	196,668	210,653

*We are currently in the process of agreeing the fee over and above the scale element with the Audit Commission and will report the final position in due course.

**Our fee for certification of claims and returns is yet to be finalised for 2013/14 and will be reported to the Audit Sub-



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

***Lastly, the work regarding the objection to the 2012/13 Statement of Accounts 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 £25k.



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.

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