

London Borough of Bromley

Audit

Year ended 31 March 2019

July 2020



Building a better
working world

13 July 2020



Dear Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the General Purposes and Licensing Committee. This report summarises our audit conclusion in relation to the audit of the London Borough of Bromley for 2018/19. We have substantially completed our audit of the Council for the year ended 31 March 2019, and we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form that appears in Section 3. We are unable to provide a conclusion on the arrangements to secure economy, efficiency and effectiveness due to objections that have yet to be concluded.

This report is intended solely for the use of Committee Members and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the General Purposes and Licensing Committee meeting on 30 July 2020.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Janet Dawson'.

Janet Dawson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented to the 26 February 2019 Audit Sub-Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

- ▶ Changes in materiality:
 - ▶ We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £9.71 million (Audit Planning Report – £9.59 million). This results in updated performance materiality, at 75% of overall materiality, of £7.28 million, and an updated threshold for reporting misstatements of £485,000.
- ▶ Changes in our assessment of risk and areas of audit risk:
 - ▶ We identified a new area of audit focus, being restructuring undertaken in the period required the Council to re-analyse, re-present and re-state the portfolio analysis of its service level income and expenditure disclosed in the Comprehensive Income and Expenditure Statement (CIES). We were required to audit this restatement.
 - ▶ We assessed provisions raised by the Council to be a high inherent risk estimate relevant to our significant risk of misstatement due to fraud and error.
 - ▶ The impact of COVID-19 on the Council's ability to continue as a going concern as at the planned date for providing our opinion on the statement of accounts.

We set out the updated assessment of risks impacting the financial statements in more detail in Section 2 of this Report.

Status of the audit

We have substantially completed our audit of the London Borough of Bromley's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

We have completed our audit work, with the exception of the following matters which are outstanding at the time of writing this report:

- Receipt of the signed Letter of Representation.
- Final review of the file by the Partner.
- Full review of the final version of the financial statements.
- Completion of subsequent events review.
- Final approval of the amended accounts by the Committee.
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

A national issue has resulted in changes to the Council's accounts and IAS19 disclosures. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. This matter was not recognised in the Council's draft financial statements. Since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government's appeal, which suggested that the changes in the Council's liability arising from the ruling can be fully calculated and so included in the IAS19 liability disclosed within the financial statements. We consider the impact of this on the financial statements further in Section 4.

Executive Summary

Audit differences

We identified two audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the General Purposes and Licensing Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £1,983,000 on the Comprehensive Income and Expenditure Statement. We agree with management's assessment that the impact is not material.

Amendments have been made to the financial statements to correct for material errors in the valuation of the Council's long term physical assets in the current and comparative years, which are detailed in section 4. The Council's actuary has reassessed defined benefit pension liabilities under IAS19 as result of the McCloud ruling. This has resulted in a number of amendments being made to the draft financial statements. A number of other amendments were made to the financial statements as a result of our audit work which we do not consider to be sufficiently significant to bring to your attention.

Areas of audit focus

Our audit planning report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the General Purposes and Licensing Committee.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There are no significant deficiencies to bring to your attention. We have, however, identified through our work some areas where internal control should be improved. These are considered further in Section 7 of this Report.

Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified no significant risks relevant to our work. We have updated our understanding of the Council's arrangements, including a consideration of its financial outturn and position and the specific risks and issues it currently faces, as part of our year-end programme of work. We have identified one significant risk relating the Council's arrangements for working with partners and other third partners, specifically in relation to procurement and contract management.

We are unable to conclude whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019 until we have concluded our work on the objection to the financial statements.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council and compliance with relevant guidance. Some amendments have been made to the Annual Governance Statement to detail actions the Council intends to take to correct the errors in the current Year valuation of its long term physical assets.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We are currently concluding our work in this area and will provide a verbal update to the committee.

Objection to the financial statements

During the audit we received correspondence from a local elector formally objecting to the 2018/19 financial statements. We are unable to consider and conclude the 2018/19 objection as we are currently awaiting the determination of objections raised with KPMG in 2016/17 and 2017/18, which raise similar issues. We will not be able to conclude whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019 or issue our certificate to conclude the audit formally until all three objections have been determined.

Independence

Please refer to Section 9 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.



What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified significant risk - Inappropriate capitalisation of revenue expenditure.

Our work on estimates focussed on land and building valuation, IAS19 pension estimates and provisions. We consider land and buildings valuation as a separately identified significant risk. We consider IAS 19 valuation as an area of audit focus. Finally, we consider provisions as high inherent risk estimates as part of work in this area.

What did we do?

We:

- ▶ Identified fraud risks during the planning stages.
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks.
- ▶ Gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Evaluated the business rationale for significant unusual transactions.
- ▶ Considered whether management bias was present in the key accounting estimates and judgements in the financial statements.

What are our conclusions?

Having completed our work:

- We have not identified any evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.
- We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Although we have identified no evidence of management bias in the Council's approach to accounting for provisions and are satisfied that a prudent approach is taken, there is scope to make provisions more accurate by basing them on the Council's actual historic experience of credit losses.

Significant risk

Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

What is the risk?

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

We have determined that the way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements to improve the financial position of the general fund.

Capitalized revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, other sources such as capital receipts or grants could be inappropriately used to finance the expenditure.

Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, removing the spend incorrectly from the general fund through applying statutory overrides.



What did we do?

Our approach focused on:

- We selected a sample of PPE additions to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations.
- We selected a sample of REFCUS items to test to confirm the appropriateness of the classification of these items
- When performing journals testing, we challenged entries that could be indicative of inappropriate capitalisation, such as journals which reclassify transactions originally recorded as revenue expenditure to capital or REFCUS.

What are our conclusions?

We have not identified any material inappropriate capitalisation of revenue expenditure.

Our work in this area required us to gain a more granular understanding of the Council's processes for capital, from the initiation of transactions through to reporting in the financial statements. Although we do not test these processes and associated controls in detail as part of our approach our consideration has not highlighted any issue we need to draw to your attention.

Our testing of PPE and investment property addition and REFCUS identified no instances of the inappropriate capitalisation of revenue expenditure.



Significant risk

Significant risk

Valuation of Land and Buildings

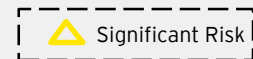
What is the risk?

Material misstatement of the assets of the Council as a result of inappropriate judgemental inputs and/or estimation techniques to calculate the year-end balances recorded in the balance sheet.

The fair value of Property, Plant and Equipment (PPE) and Investment property (IP) represents a significant balances in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.



What did we do?

We:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Challenged the assumptions used by the Council's valuer by reference to external evidence using our EY valuation specialists
- Sample tested key asset information used by the valuers in performing their valuation (e.g. building areas to support valuations based on price per square metre);
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We also considered whether any specific changes to the assets were properly communicated to the valuer;
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested that accounting entries have been correctly processed in the financial statements.



Areas of Audit Focus

Valuation of Land and Buildings (continued)

What are our conclusions?

Our work identified pervasive and material errors in the external valuation of the Council's PPE and IP undertaken by its external valuer, Cushman and Wakefield. Our initial review of the valuation undertaken identified areas of risk and prompted us to involve our specialist EY Real Estate (EYRE) valuation specialists. EYRE reviewed in detail:

- A sample of five operational PPE assets valued at Depreciated Replacement Cost (DRC), with a total gross carrying value of approximately £34 million in the draft financial statements.
- A sample of eleven Operational PPE and Investment Property assets valued at Market Value or Market Value in Existing Use Value (EUV), with a total gross carrying value of approximately £102 million in the draft financial statements.

EYRE identified pervasive errors in the work of the external valuer covering both the accuracy of base data used to inform the valuation, for example floor areas, and the key assumptions made by the valuer to inform the valuation, for example estimates of asset yield. As a result of this Cushman and Wakefield and Knight Frank produced revised valuations for the assets considered by EYRE in their review. We are satisfied that the revised valuations produced are materially accurate.

Following their review EYRE identified the following errors in the draft accounts based on the sample of assets selected for testing:

- Assets carried at EUV were overstated by a net value of approximately £19.6 million and a gross value of approximately £21.9 million.
- Assets carried at DRC were understated by a net value of approximately £5 million and a gross value of approximately £7.6 million.

Due to the material and pervasive nature of the errors identified it has been necessary for the Council to produce, disclose and account for the impact in the financial statements of revised valuations covering the year of account, comparative year and start of the comparative year. The resulting amendments to the statements are set out in section 4 of this report. Although the errors were as a result of errors and weaknesses in the valuation approach of the External Valuer there is more the Council should do to ensure the carrying value of long term physical assets in its financial statements are correct. Specifically:

- It is important the Council clearly specifies in its instructions to its External Valuer the approach that should be taken and then monitors the performance of the Valuer against this instruction. It is also then important that a signed valuations report is obtained from the Valuer in support of the valuations produced.
- No internal checks were undertaken by the Council on the accuracy of the valuation prior to accounting for it in the financial statements.

We have raised recommendations for improvement on the following page.



Areas of Audit Focus

Valuation of Land and Buildings (continued)

What are our recommendations?

Recommendation 1

Clearly specify the requirements of the valuation in the valuation instruction to the external Valuer and monitor performance against this. Routinely obtain a signed valuation report from the Valuer in support of future asset valuations undertaken.

Management Response:

We will fully implement this recommendation with immediate effect and ensure a signed valuation report is received.

Responsible Officer:

Assistant Director - Strategic Property.

Recommendation 2

Use appropriately qualified and skilled staff in the Council to review the reasonableness of assets valuations undertaken prior to accounting for them in the financial statements.

Management Response:

Agreed.

Responsible Officer:

Assistant Director - Strategic Property.



Areas of Audit Focus

Other areas of audit focus

Pension Liability Valuation

What is the risk?

The Code of Practice on Local Authority Accounting and IAS 19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's expert - Mercers.
- Ensuring the information supplied to the actuary in relation to the London Borough of Bromley was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from the actuary.

What did we do?

- ▶ Liaised with the auditors of the administering authority (Bromley Pension Fund), to obtain assurances over the information supplied to the actuary in relation to the London Borough of Bromley.
- ▶ Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team.
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.

What are our conclusions?

We have concluded that we could rely on the work of the actuary and that the values and entries from the actuarial report were correctly reflected in the draft financial statements.

As considered more fully in Section 4 of this report the Council re-engaged the actuary to produce an updated IAS 19 valuation to consider the impact of the McCloud ruling. The actuary was also able to consider the actual rather than estimated value of the Council's share of pension fund assets at year end.

We are satisfied that the re-assessment of the IAS 19 liability is reasonable and that it has been correctly reflected in the revised financial statements. Details of the amendments made are set out more fully in Section 4 of this report.



Areas of Audit Focus

Other areas of audit focus

Spring Capital Loan

What is the risk?

The Council entered into an agreement with Spring Capital to loan Spring Capital funds to purchase a nursing home and detached house in 2017/18. This is being used to provide Homeless Accommodation for the Council until such time as they can be developed for private residence. The Council may also lend Spring Capital the funds to develop the site if planning permission is granted. This is treated as a loan secured on assets at 6% return (rising to 7.5% return if the Loan To Value exceeds 70%).

What did we do?

We:

- ▶ Confirmed the holding value of the loan of £2.3 million through agreement of the balance paid.
- ▶ Considered how the loan had been accounted for in the financial standards having regard to the requirements of the relevant accounting standard - IFRS 9 on financial instruments.

What are our conclusions?

We:

- Confirmed the loan passes both the Solely Payments of Principal and Interest (SPPI) and Business Model tests under IFRS 9. The Council have therefore correctly held and disclosed the associated financial asset at amortised cost in its financial statements.
- In line with the IFRS 9 we also considered whether the Council had correctly accounted for any expected credit losses (ECL). As the collateral exceeds the value of the loan we have concluded that the Council's assessment that no ECL is required to be accounted for is reasonable.

We also note that the total value of the loan is well below of our assessed level of performance materiality and therefore of itself does not present a risk of material misstatement.



Areas of Audit Focus

Other areas of audit focus

New Accounting Standards

What is the risk?

IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts) apply from 1 April 2018. Based on our understanding to date we expect the impact of IFRS 15 will have limited impact on your accounts.

IFRS 9 will change:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets are calculated; and
- ▶ The disclosure requirements for financial instruments.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 9.

Central government has indicated following consultation that statutory overrides for certain classes of financial assets will be put in place. However, until these are confirmed there remains some uncertainty on the full accounting treatment.

What did we do?

We performed the following:

- ▶ Assessed the Council's implementation arrangements and accounting for 2018/19.

Specifically, for IFRS 9, we have:

- ▶ Considered the classification and valuation of financial instrument assets.
- ▶ Reviewed the implementation of the new ECL model impairment calculations for assets.
- ▶ Checked additional disclosure requirements for compliance with the CIPFA Code.

What are our conclusions?

The Council was able to show that implementation of IFRS 15 had no material impact on its financial reporting arrangements.

For IFRS 9 we are satisfied that:

- Required changes to the classification and accounting for financial instruments were made correctly.
- CIPFA Code disclosure requirements have been met.

Although we are satisfied that provisions made for the likely impairment of financial assets are not understated, the Council has not been able to show that its historic experience of losses incurred has consistently been used to inform provisions for impairment accounted for in the financial statements.



Areas of Audit Focus

Other areas of audit focus

CIES Restatement

What is the risk?

Restructuring undertaken in the period required the Council to re-analyse, re-present and re-state the portfolio analysis of its service level income and expenditure disclosed in the Comprehensive Income and Expenditure Statement (CIES). This required the restatement of relevant prior period information in the financial statements.

What did we do?

We focused on the following:

- ▶ A review of the analysis of how service level income and expenditure figures are derived, how the ledger system has been re-mapped to reflect the Council's new organisational structure and how overheads are apportioned across the service areas reported.
- ▶ Agreement of restated comparative figures.

What are our conclusions?

We did not identify any issues with regard to the restatement of the CIES, Expenditure and Funding Analysis and related disclosure notes.



Areas of Audit Focus

Other areas of audit focus

Impact of COVID-19 on the Council's going concern assessment

What is the risk?

Following the confirmed outbreak of Covid-19 in the UK on 31 January 2020 and Government lockdown on 23 March 2020, the ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements in 2019/20 and has affected the income received and expenditure incurred by the Council in 2020/21. Due to the significant uncertainty about the duration and extent of disruption, this has a direct impact on the Council's going concern assessment at the date of approving the amended statement of accounts.

The Council has reviewed its Going Concern assessment as at July 2020, to consider whether or not there are any circumstances whereby it is not appropriate to prepare the accounts for 2018/19 on a going concern basis, in other words that the Council will continue to be a going concern 12 months from the date of signing the accounts as approved. This assessment typically takes into account income and expenditure and cashflow forecasts, uncertainties and risks associated with those flows, reserves and the ability to meet liabilities as they fall due.

What did we do?

We have reviewed and challenged management's assessment of going concern and are in the process of agreeing amendments to the disclosures in the Narrative Report, going concern and post balance sheet event disclosures.

What are our conclusions?

We are currently concluding in this area and will update the Committee at the meeting on 30 July 2020.

We expect that our audit opinion will include an emphasis of matter paragraph. The emphasis of matter will draw attention to the Council's going concern disclosure which describes the financial and operational consequences the Council is facing as a result of Covid-19. Our opinion is not modified in respect of this matter.



03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF BROMLEY

Opinion

We have audited the financial statements of the London Borough of Bromley for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement and the related notes 1 to 48, and the Expenditure and Funding Analysis on page 14.
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Bromley as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to

our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Disclosures in relation to the effects of COVID-19

We draw attention to Note 1.32 - Going Concern Basis of the financial statements, which describes the financial and operational consequences the Council is facing as a result of COVID-19 which is impacting future financial planning and contractual arrangements. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the 2018/19 Statement of Accounts, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



Audit Report

Draft audit report

Our opinion on the financial statements

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 13, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Audit Report

Draft audit report

Our opinion on the financial statements

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Pension Fund financial statements

On 29 November 2019 we issued our opinion on the Pension Fund financial statements for the year ended 31 March 2019 included within the Statement of Accounts.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate as we have not yet completed the work necessary to conclude the objection to the Council's 2018/19 Statement of Accounts. It is our view that even if the objection were resolved in the objector's favour, this would not materially affect the Statement of Accounts. We are unable to form a conclusion on whether we are satisfied that, in all significant respects, the London Borough of Bromley put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019 until we complete the work necessary to conclude the objection.

The predecessor auditor, KPMG have not completed their work on objections relating to the 2016/17 accounts and 2017/17 accounts and have therefore not yet issued their completion certificates relating to those years of audit.

Until we have completed these procedures and KPMG have issued their completion certificates, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of the London Borough of Bromley, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

The maintenance and integrity of the London Borough of Bromley web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £7.28 million which have been corrected by management that were identified during the course of our audit.

Adjustments made to the carrying value of long term assets in the current and comparative years have been made in the financial statements as a result of our findings regarding the asset valuations:

- Overstatement of the valuation of land and buildings in property plant and equipment - £21.9 million for 2018/19, £0.3 million in 2017/18 and understatement of the valuation - £1.8 million in 2016/17.
- Overstatement of the valuation of land and buildings in investment property - £17.9 million in 2018/19, £12.6 million in 2017/18 and £13.3 million in 2016/17.
- Understatement of assets held for sale - £3.0 million in 2018/19, £2.7 million in 2017/18 and overstatement of assets held for sale - £6.3 million in 2016/17
- The impact on the CIES in 2018/19 as a result of the change in valuation as at 31 March 2019 was to understate costs of services expenditure by £5.1 million and finance and investment expenditure by £5.7 million.
- Corresponding adjustments to reserves were required to the accounts of £36.0 million in 2018/19, £10.2 million in 2017/18 and £17.8 million in 2016/17.

There are no further corrected misstatements above this level to bring to your attention.

We report to you any uncorrected misstatements greater than our nominal value of £485,000. There are three uncorrected misstatements to bring to your attention, these are detailed on the following page.

A number of amendments were made to the financial statements as a result of our audit work which we do not consider to be sufficiently significant to bring to your attention.

McCloud ruling



As noted in the Executive Summary a national issue has resulted in a relatively late change to the accounts and IAS19 liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft accounts recognised this matter as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS19 liability disclosed within the financial statements. The actuary has now estimated the impact of the McCloud ruling by updating the IAS19 assessment for the Council. In doing this the IAS19 assessment was also updated for one other issue. It is usual practice the original IAS19 valuation was based on an estimate of fund assets at the end of the year. This has been updated to reflect the value of fund assets in the draft 2018/19 Bromley Pension Fund financial statements.

We are satisfied that the updated IAS19 valuation has been correctly accounted for in the revised financial statements. This has the net impact of increasing the IAS19 pension liability reported by approximately £23.7 million.

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the General Purposes and Licensing Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2020 (£000)		Effect on the current period:	 Balance Sheet (Decrease)/Increase				Reserves
			Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	
Errors							
Judgemental differences:							
▶ Estimate of omission of GMP from Pension Liability		1,983				(1,983)	
▶ Extrapolated error in valuation of PPE and Investment Properties - initial error £14,000				596			(596)
Balance sheet totals							
Income effect of uncorrected misstatements (before tax)							
Cumulative effect of uncorrected misstatements		1,983		596		(1,983)	(596)

Both items above are estimates calculated based on audit findings and as such we would not be expected to be amended in the financial statements due to their nature. They are calculated to provide an indication of whether additional work is required to establish whether there is a risk of material misstatement. Given that the estimates are not material, no further work is indicated.

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2020.

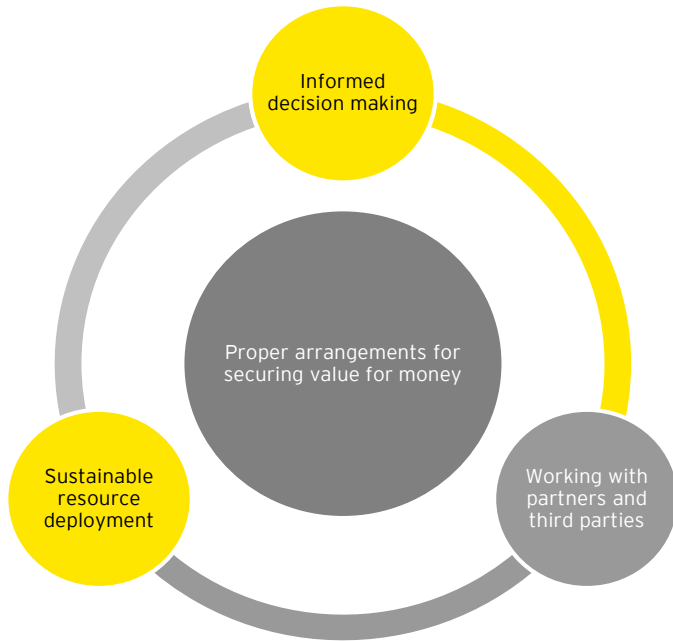


05

Value for Money Risks



Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

At planning, we identified no significant risks relating to the Council's arrangements. We have updated our understanding of the Council's arrangements, including a consideration of its financial outturn and position and the specific risks and issues it currently faces, as part of our year-end programme of work. We have identified one significant risk relating the Council's arrangements for working with partners and other third partners, specifically in relation to procurement and contract management. We will provide more details of our assessment of the risk and our planned work once the objections relating to 2016/17 and 2017/18 have been concluded.

We are unable to conclude whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019 until we have concluded our work on the objection to the financial statements.



06 Other reporting issues

Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. Some amendments have been made to the Annual Governance Statement to detail actions the Council intends to take to correct the errors in the current Year valuation of its long term physical assets.

Whole of Government Accounts (WGA)

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the General Purposes and Licensing Committee.

We have notified the National Audit Office, the group auditor for WGA, of the delay caused by the restatement of the financial statements.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations

We have no matters to report in these areas not otherwise considered elsewhere in this report. We have raised recommendations to improve the Council's arrangements for the valuation of its long term assets in Section 2 of this Report. We have also raised recommendations to address control weaknesses detected as part of the audit in Section 7 of this Report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. We have, however, identified three areas where internal control should be improved which we consider in the remainder of this Section of our Report. We have also raised two recommendations for improvement relating to the Council's processes for the valuation of its long term physical assets which are set out in Section 2 of this report.

Assessment of Control Environment

Observation

The Council accounts and Pension Fund accounts are not set up as separate and discrete company codes on the General Ledger. This results in some journal entries appearing to be one-sided in either the Council or Pension Fund accounts. We have undertaken work to show that journals are in balance overall with there then being one final balancing journal transaction which is reflected as a non-material temporary loan by the Council to the Pension Fund on the Council's Balance Sheet. Although we are satisfied this does not have a material impact on the financial statements internal control should be improved by accounting for the Council and Pension Fund on separate and discrete company codes on the General Ledger.

Recommendation 3*

Establish separate and discrete company codes on the General Ledger to fully separate Council and Pension Fund transactions.

* See section 2 for recommendations 1 and 2

Management comment

The financial system currently holds a separate coding range to identify pension fund transactions and balances. However, the way in which the current financial system was configured on implementation in 2006 means that there is no capability to establish separate organisation units (company codes). This will be explored as part of the future financial systems options appraisal which is currently being considered and we plan to have this implemented no later than March 2022.

Responsible officers:

Head of Corporate Finance and Accounting, Head of Finance (ASCHH) and Financial Systems Manager.

Assessment of Control Environment

Observation

Although Bromley Pension Fund has its own bank account this is not currently used. All cash receipts and payments relating to both the Council and Pension Fund are made out of the main Council bank account. Although we satisfied that cash is correctly disclosed in the Council's financial statements we note it is a requirement of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 that all pension schemes should operate their own bank account.

Recommendation 4

Use the separate Pension Fund bank account for Pension Fund cash transactions.

Management comment

Some of the work required to implement this recommendation will impact on the Council's external contractor and this requirement was included in the recent tendering of the Exchequer Services contract. However, significant development work will be required to the Council's current financial system to allow the use of a separate bank account. This needs to be incorporated into the financial systems options appraisal to determine whether this work should proceed separately to any future decisions around potential system upgrades/ replacement and we plan to have this implemented no later than March 2022.

Responsible officers:

Head of Corporate Finance and Accounting, Head of Finance (ASCHH) and Financial Systems Manager.

Assessment of Control Environment

Observation

Manual journals are not subject to any authorisation or second review. Although our review and testing of journals has not highlighted any evidence of material error or fraud, appropriate review of journals prior to posting is a key management control, particularly for significant value journal entries.

Recommendation 5

Establish a proportionate control so that at least significant value manual journals are subject to review and authorisation prior to processing on the General Ledger.

Management comment

A process has been put in place for a sample of journals to be tested on a quarterly basis. This is rotated between members of the finance management team to ensure an independent check across all services. This is in addition to any testing undertaken by internal and external audit.

Responsible Officers:

Financial Management Team.



Assessment of Control Environment

Observation

The Council does not maintain a detailed asset register for furniture and equipment and infrastructure assets, but only a list of the amount capitalised by location. Therefore, they cannot identify if it were overstated, or that some element needed to be written out because it no longer existed.

Recommendation 6

Establish a detailed asset register for all asset types.

Management comment

During 2020/21 Finance will work with colleagues in the Property and Assets teams to establish detailed asset registers for Furniture, Equipment and Infrastructure Assets

Responsible Officers:

Principal Accountant - Technical & Control Team



08 Data Analytics



Use of Data Analytics in the Audit

► Data analytics – Income & expenditure testing, payroll testing and journals

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Council's audit included general income and expenditure, payroll costs and journals to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us more effectively to identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the General Ledger and perform procedures to understand the data and identify unusual items. We also reconcile the GL amount to the payroll subledger. We then analyse the data against a number of specifically designed procedures.



9

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 25 March 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. **In** our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the General Purposes and Licensing Committee on 30 July 2020.

Independence

Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 31 March 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services recorded has been provided on a contingent fee basis.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees proposed for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements. Non-audit work is work not carried out under the Code.

	Final Proposed Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19
	£	£	£
Total Audit Fee - Code work	tbc*	91,689	91,689

All fees exclude VAT

- The 2018/19 final fee will include a scale fee variation for work undertaken on asset valuation, restatement of the CIES, EFA and related notes, and other changes to the scope of the audit that have been required. The fee is currently being discussed with officers and will be reported to the GP&L Committee once those discussions have been concluded.

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit. In 2018/19 we have taken a wholly substantive approach to gaining audit assurance and have not sought to test controls.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
PPE	As we identified a significant risk of inappropriate capitalisation of revenue expenditure relating to PPE additions, we segregated this account from the rest of PPE, testing at a higher level compared to the remainder of PPE.	Additions were tested at the same threshold as the remainder of PPE.	We amended our approach to focus on the risks of misstatements in the accounts

Appendix B

Summary of communications




Date	Nature	Summary
8 November 2018	Meeting	The audit partner and the audit manager met with key officers of the Council to discuss the progress of the audit and discuss emerging issues.
18 February 2019	Meeting	The audit partner met with key officers of the Council to discuss progress of the audit.
26 February 2019	Meeting	The audit partner met with the Audit Sub-Committee as an introductory meeting and presented the audit plan and set out our considerations of risk.
4 April 2019	Meeting	The audit manager met with key officers of the Council to discuss the progress of the audit and discuss emerging issues and the responses to our Assurance letters.
4 June 2019	Meeting/Report	The audit manager attended the Audit Sub-Committee.
28 November 2019	Meeting	The lead partner in charge of the audit of Bromley Council (Janet Dawson) attended the General Purposes and Licensing Committee and discussed the status of the audit of the main Council and the Pension Fund
30 July 2020	Meeting	The audit partner attended the General Purposes and Licensing Committee and presented the Audit Results Report and discussed the status of the audit of the main Council

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.





Appendix C

Required communications with the General Purposes and Licensing Committee




There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the General Purposes and Licensing Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report, presented to the Audit Sub-Committee, which had been given delegated responsibility by the General Purposes and Licensing Committee - February 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report - February 2019
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process. 	Audit Results Report - November 2019 and July 2020

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Major Local Audits	<p>For the audits of financial statements of public interest entities/Major Local Audits our written communications to the audit committee include:</p> <ul style="list-style-type: none"> ▶ A declaration of independence ▶ The identity of each key audit partner ▶ The use of non-member firms or external specialists and confirmation of their independence ▶ The nature and frequency of communications ▶ A description of the scope and timing of the audit ▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▶ Materiality ▶ Any going concern issues identified ▶ Any significant deficiencies in internal control identified and whether they have been resolved by management ▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee ▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant 	<p>Audit Planning Report - February 2019</p> <p>Audit Results Report - November 2019 and July 2020</p>





Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events have been identified to date, either individually or together to raise any doubt about the London Borough of Bromley's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - November 2019 and July 2020
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the General Purposes and Licensing Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report - November 2019 and July 2020
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the General Purposes and Licensing Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to General Purposes and Licensing Committee responsibility. 	<p>Audit results report - November 2019 and July 2020</p> <p>Enquiries were made during the audit, and there are no issues to report to you</p>




Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Council 	<p>Audit Results Report - November 2019 and July 2020</p> <p>No issues to report</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	<p>Audit Planning Report - February 2019</p> <p>Audit Results Report - November 2019 and July 2020</p>

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur. ▶ Enquiry of the General Purposes and Licensing Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	We have not identified any significant deficiencies in internal controls. Areas where improvements in control are required have been reported as part of this Audit Results Report.

Appendix C

		Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit results report - November 2019 and July 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report - November 2019 and July 2020 No issues to report
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report - November 2019 and July 2020 No such circumstances identified
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report - February 2019 Audit results report - November 2019 and July 2020

Appendix D

Management representation letter

Management Rep Letter

Ernst & Young LLP

Janet Dawson

Partner

Ernst & Young LLP

1 More London Riverside

London

SE1 2AF

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Bromley (“the Council”) for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of the London Borough of Bromley as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because their value and net effect is not material to the financial statements .

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council’s activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

Management representation letter

Management Rep Letter

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council’s financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council’s activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council and committees held through 2018/19 and 2019/20 to the most recent meeting of the General Purposes and Licensing Committee.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements. . .

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 45 to the financial statements all guarantees that we have given to third parties.

Management representation letter

Management Rep Letter

E. Subsequent Events

1. Other than described in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to the period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, investment property, assets held for sale and the pension fund asset and liability. We have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

H. Estimates

Valuation of Property, Plant and Equipment

Valuation of Pension Fund assets and liabilities

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the

United Kingdom 2018/19.

3. We confirm that no further adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

I. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

J Comparative information - comparative financial statements

1. As part of your audit significant errors were detected in the carrying value of the Council's long-term physical assets. The errors in our valuation approach led to misstatements which were present prior to the start of the comparative year. Restatement and disclosure of corrected opening balances at the start of the comparative year has also been required.
2. The comparative amounts have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's financial statements.
3. There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the financial statements for the year ended 31 March 2018 are solely the result of reclassifications for comparative purposes.

Yours faithfully,

Peter Turner

Director of Finance

Councillor Pauline Tunnicliffe

Chairman of the General Purposes and Licensing Committee

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ED None

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