



**London Borough of  
Bromley  
Progress Update**  
Year ended 31 March 2020

12 November 2020



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13 November 2020



Dear Committee Members

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of the current status of the Council's and the Pension Fund's 2019/20 audits, and an outline of our plans to complete the audits. This report is a key mechanism in ensuring that the Committee is fully apprised of audit progress and key issues as they arise. We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audits.

Our audits are undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

This report is intended solely for the use of the Committee, other members of the Authority, 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 so far.

Yours faithfully

Janet Dawson

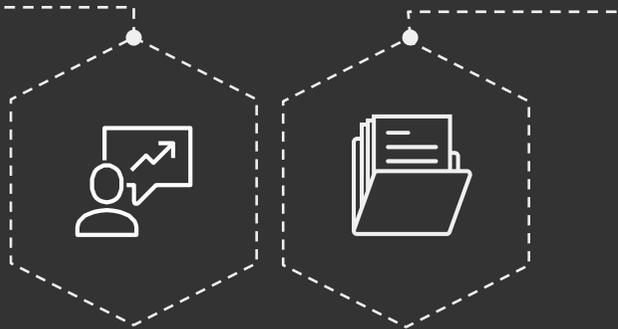
Partner  
For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The 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 and further guidance (updated April 2018)" issued by the 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 in legislation, 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. 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.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



# 01 Progress Update

# Status of the London Borough of Bromley 2019/20 audit

## 2019/20 Financial Statements

We issued our 2019/20 Audit Plan in July 2020 where we outlined how we intend to carry out our responsibilities as auditor, including our proposed audit approach. Our year-end procedures to date have confirmed that the risks identified in the Audit Plan remain appropriate. These were:

### Significant risks

- Misstatements due to fraud or error\*
- Risk of fraud in revenue recognition through inappropriate capitalisation of revenue expenditure)\*
- Valuation of land and building\*
- IAS 19 - Valuations\*

### Other areas of audit focus

- IFRS 16 - Leases - The adoption of IFRS 16 by CIPFA as the basis for preparation of Local Authority financial statements has been deferred to 2021/22.
- Going Concern Compliance with ISA 570
- Impact of Covid-19

\*- denotes significant risk

### Designation of the audit as close monitoring

We previously communicated that the London Borough of Bromley audit has been designated as close monitoring by EY in 2019/20 due to the following risk factors:

- The 2018/19 financial statements sign-off was significantly delayed due to pervasive errors found during the audit of PPE valuations. In addition, the systems and processes that supported the audit process for 2018/19 did not support data analytics well, were manual in design and relied heavily on a small and over stretched team. Changes in the finance team since the 2018/19 audit increase the risk to the Council that knowledge of those processes has been lost, which may make the closedown process more difficult and the risk of error greater. We also need to work closely with officers to ensure that current audit regulatory reporting requirements to those charged with governance are understood and met, thereby allowing effective communication of audit findings and recommendations for improvements.
- Outstanding objections relating to procurement from prior years. KPMG are yet to conclude their work regarding objections in 2016/17 and 2017/18. Therefore, it is unclear if the issues being reviewed relate only to procurement or potentially identifies a wider management issue. As a result, we have been unable to conclude our work on the value for money conclusion for 2018/19.

### Year-end impact of close monitoring status

- Involvement of EY Real Estate to value a sample of properties
- Involvement of EY Pensions Consulting to review McCloud and Goodwin impacts
- Reduction in our planning materiality and tolerable error level for the audit to 1% of gross revenue expenditure and 50% of planning materiality respectively, which drives higher sample sizes across our areas of testing, and which lowers the thresholds above which we report to the committee on errors identified during the audit.

# Status of the London Borough of Bromley 2019/20 audit

## 2019/20 Financial Statements (continued)

### Post Statements Audit

We started our year-end audit in August 2020 with completion planned for mid-October. We have made good progress on all areas of the financial statements except Property, Plant and Equipment and Investment Properties, although we have encountered significant delays in receiving audit evidence to support our work. We have addressed this through allocation of additional resources on the audit and regular communication with key personnel at the Council.

During our procedures to pick samples, we noted there were delays in providing the transaction listings for Trade receivables and Trade payables. Similarly, due to the audit being designated as close monitoring, we have tested a larger sample in all areas, and particularly relating to Income and Expenditure. The delays in receiving supporting information and/or obtaining transaction listings means we are unable to conclude on those areas at this stage.

### Property, Plant and Equipment and Investment Properties

**Valuation** - Given the significance of the valuations of assets at Bromley and based on prior year knowledge, we involved our internal property valuation experts in the audit of the valuations from the beginning of our audit. The Council has not provided the evidence to support the base data information as per our agreed timelines and therefore we are still awaiting this information.

**Existence** - During our review of existence of properties owned by the Council, we were unable to gain evidence to confirm existence of the furniture and equipment in the financial statements. We have been informed in 2019/20 that this is calculated on a straight line percentage of certain elements land and buildings. This also led to an increased focus on valuation of these assets. As the value of furniture and equipment is material and we were unable to obtain evidence of existence of these assets, the Council has planned to commission chartered surveyors to obtain further information to support existence and value of these assets. We recognise that this is a time consuming process and could not be completed in time for our review during this visit.

**Depreciation** - Our procedures showed that depreciation charged on Land and Building category of PPE did not include charges on revalued assets. The Council has provided draft estimates for the impact of this error and as this is above our materiality threshold, it meets the criteria for a prior year adjustment. Officers have requested additional time to ensure that they process the calculations and adjustments accurately. Therefore, we have agreed that this will be corrected by the Council in time for our next visit.

Given the issues identified in these areas, we have been unable to complete the audit of property, plant and equipment and investment property at this visit.

The following sets out the main areas of the audit that are outstanding subject to the receipt of information requested:

- Testing of outstanding supporting documents in Income, Expenditure, Accounts Payable, Grants Receipts in Advance.
- Testing of Properties, Plant and Equipment and Investment Properties.
- Finalisation of financial instruments, REFCUS, contract review.
- Finalisation of adjustments (all below Tolerable Error) and amendments in the disclosure notes.
- Assessment of the provided disclosure of going concern consideration in the accounts.



# Status of the London Borough of Bromley 2019/20 audit

## Value for Money Conclusion

We have been unable to conclude on our value for money conclusion for 2018/19 until KPMG conclude on the outstanding objections from prior years. Therefore, we have been unable to complete our risk assessment process for 2019/20. However, we have not identified any significant risks to the conclusion to date.

## Annual audit letter

Until we have completed our work on the financial statements, and issued our audit results report, we are unable to issue the annual audit letter.

We are required to complete the annual audit letter within one month of the audit opinion. We will agree with officers, and discuss with you at the Audit Committee meeting, the most appropriate way to circulate the annual audit letter, given the next scheduled meeting of the Audit Committee is likely to be March 2021.

## Material amendments identified

We highlight the following misstatements greater than £0.28m that have been identified through the work we have undertaken to date.

- Depreciation - Based on the procedures performed to test depreciation charged in year we noted that there was no charge made on properties revalued in the year. This has an impact of £3.6m in the current year and £4.3m on the prior year depreciation charge. The finance team have agreed to correct this.
- Property, Plant and Equipment (PPE) Additions - We noted that some assets that were under construction as at the end of the financial year were classified as additions. This reclassification error was projected over the remaining population and we note that financial impact of this misstatement is £0.9m.
- Pensions - The impact of the Goodwin judgement has been assessed as immaterial by the Council and its actuarial specialist. We have calculated the understatement of the Council's liability to be £853,487, based on our internal specialist's range. As this is a judgemental misstatement, we would not expect the Council to amend the financial statements, however it is above our reporting thresholds and therefore will be reported in our Audit results Report.
- Cash flow Statement - An amount of £1.5m that was not received by the end of the financial year was recorded as a receipt which led to overstatement of Financing activities and understatement of non-cash adjustments in the cash flow statement. The finance team have agreed to correct this.
- Other - Through our sample testing in PPE Additions and Creditors, we noted discrepancies in the amounts recorded which led to projection of such errors over the respective remaining population to assess the impact. In these cases, the impact was below our reporting threshold however we have communicated these to the management and will keep these under review to assess the cumulative impact before sign off.

# Status of the Bromley Pension Fund 2019/20 audit

## 2019/20 Pension Fund Financial Statements

### Post Statements Audit

We issued our 2019/20 Audit Plan in July 2020 where we outlined how we intend to carry out our responsibilities as auditor, including our proposed audit approach. Our year-end procedures to date confirmed that the risks identified in the Audit Plan remain appropriate. These were:

#### Significant risks:

- Misstatements due to fraud or error
- Risk of fraud in revenue recognition through inappropriate capitalisation of revenue expenditure) - Posting of investment journals

#### Other risks

- Valuation of investments under Level 2 Fair Value hierarchy
- Impact of Covid-19, including going concern

As agreed with management, we started our year-end audit in August 2020 with completion planned for September. However, the Pension Fund have been unable to provide some of the audit evidence supporting the accounts in a timely manner to enable us to progress the audit as planned.

As at the date of this report the main areas of the audit that are outstanding and subject to the receipt of information requested are:

- Testing of outstanding supporting documents and responses to queries in walkthrough documents, journal entry testing and short term borrowings
- Completion of testing of investment assets, investment income and profit/loss on disposal of investments subject to the receipt of the reconciliation of the trial balance to the financial statements and management response to differences noted in the testing.
- Finalisation of adjustments (all below Tolerable Error) and amendments in the disclosure notes.
- Assessment of the provided disclosure of going concern consideration in the accounts. Once we have completed our review we will need to comply with our internal consultation processes in relation to going concern.
- Completion of membership data testing to support the triennial review which we require to provide IAS19 assurances to the auditor of the London Borough of Bromley.

We have agreed a number of amendments to the financial statements including changes to the categorisation of assets between level 2 and level 3 assets; enhanced going concern disclosures; other minor adjustments and disclosures to ensure consistency in the financial statements.

We are unable to sign the opinion for the Pension Fund until the audit of the London Borough for Bromley is complete for 2019/20.

The background of the slide features a close-up, shallow depth-of-field photograph of Euro currency. In the foreground, a 1 Euro coin is in sharp focus, showing its intricate design and the word 'EURO'. Behind it, another coin is slightly out of focus. The background is filled with the textured patterns and colors of Euro banknotes, including a prominent blue note on the left and green notes at the bottom. A dark grey horizontal bar is overlaid on the lower portion of the image, containing a yellow hexagon with the number '02' and the text 'Timetable for 2019/20 Completion' in yellow.

02

Timetable for 2019/20 Completion



## Audit Timetable for 2019/20 Completion

# Timetable of communication and deliverables

### 2019/20 audit

We have agreed a timetable with officers that should provide sufficient time to gather all the outstanding information and make the required changes to the financial statements in such areas as depreciation and furniture and equipment.

- Audit team to return w/c 8 February 2021 for 2 weeks to complete the audit of all outstanding areas
- Audit of WGA w/c 22 February 2021
- Report the Audit Results Report to the General Purposes and Licensing Committee on 23 March 2021

Achieving the timetable set out above is dependent on officers providing all outstanding information and providing revised financial statements including the agreed amendments for both the London Borough of Bromley and Bromley pension Fund.

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