

London Borough of
Bromley

Audit Update

March 2024



London Borough of Bromley
Civic Centre
Stockwell Close
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14 March 2024

Dear Committee Members

Audit Update

The purpose of this report is to provide the Audit & Risk Committee with an overview of the current status of the Council's audit status for 2020/21, 2021/22, 2022/23 and our plans for the 2023/24 year. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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.

Yours faithfully,

Janet Dawson

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 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 report is made solely to the Audit & Risk Committee and management of London Borough of Bromley in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Risk Committee, and management of London Borough of Bromley those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Risk Committee, and management of London Borough of Bromley for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Progress Update – Financial Statements of the Council





Completion of the 2020/21 Audit

2020/21 Financial Statement Audit

We issued our Audit Planning Report in March 2023, with progress reported to the July and November 2023 Audit & Risk Committee meetings. We provide an update below in respect of the 2020/21 audit as well as for the subsequent audit periods 2021/22 and 2022/23.

Context for the 2020/21, 2021/22, 2022/23 and 2023/24 audits – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited accounts by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- DLUHC has launched consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic accounts and for the financial years 2023/24 to 2027/28.
- The National Audit Office (NAO) has launched consultation on amending the Code of Audit Practice to :
 - Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
 - Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.
- The Chartered Institute of Public Finance and Accountancy (CIPFA) has launched a consultation on temporary changes to the accounting code for preparation of the accounts. The proposed temporary changes to the financial reporting framework have an impact on both how the accounts are prepared and our audit procedures necessary to gain assurance.

Context for the 2020/21, 2021/22, 2022/23 and 2023/24 audits

Context for the 2020/21, 2021/22, 2022/23 and 2023/24 audits – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays (cont)

Impact on the 2020/21, 2021/22, 2022/23 and 2023/24 financial statements audits

To allow for timely reset of the audit of the Council we have focused our resources on discharging our value for money reporting requirements for 2020/21, 2021/22, 2022/23 and planning the 2023/24 audit. In respect of the value for money reporting for the period up to 31 March 2023 including the prior periods our work is well progressed. We have met with the Director of Finance to discuss a number of key questions to help us form our conclusions. We have also reviewed all relevant documentation up to 31 March 2023 including, for example:

- the most relevant financial outturn and forecasts for the Council,
- the results of external inspections undertaken for the periods under review; and
- all relevant annual assessments in respect of internal control

We will report our initial conclusions to management in April 2024 with formal reporting through to the Audit & Risk Committee at the next scheduled meeting after that in June 2024.

As a result of the likely backstop date and our decision to prioritise 2023/24 work to allow for a reset we expect to disclaim the opinion on the Council's 2020/21, 2021/22 and 2022/23 accounts. Our proposed disclaimer of the Council's 2022/23 accounts will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit report in 2023/24 and subsequent years during the recovery phase. We should emphasise that the proposed disclaimed opinions reflect a national initiative to reset the audit market and to enable the Council and key finance staff specifically to look forward to the current year under audit. It is also important to highlight that the disclaimed opinions that would be issued at Bromley do not reflect any specific concerns around the Council's financial position. Our conclusions and commentary in respect of the financial sustainability of the Council will be included in our value for money reporting.

The changes proposed by the consultations therefore have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Audit & Risk Committee as the audit progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer.

Our proposed timetable for the 2023/24 audit is set out on pages 15 and 16.

For the 2023/24 audit, we are also undertaking the following actions:

- Changing the audit team for the Council. Janet Dawson has been Engagement Partner for five years and is therefore required to rotate from the audit. We are taking the opportunity to introduce a new Partner, Senior Manager, Assistant Manager and Senior based out of our Luton office. This team has experience in the delivery of London Borough audits, and will plan to work from client offices frequently.
- Undertaking planning and interim audit procedures in April 2024, with the interim audit procedures and financial statement field work planned between July and September, with conclusion work into October and November.

We therefore plan to issue an Audit Planning Report for London Borough of Bromley to the June 2024 Audit & Risk Committee.

On the subsequent pages we have provided an overview of our 2023/24 audit strategy.



Context for the 2020/21, 2021/22, 2022/23 and 2023/24 audits

Responsibilities of Council management and those charged with governance

For the planned reset measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The Council's Section 151 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Council resources are readily available to support the audit process, within agreed deadlines. The Audit & Risk Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Please see page 15 where we have included the responsibilities of the organisation as set out in PSAA's Statement of Responsibilities in relation to preparation of financial statements.

Where this is not done, we will:

- Seek a fee variation for the cost of additional resources needed to discharge our responsibilities. We have set out on page 14 paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. Section 4 of this report sets out the impact on the overall fee for additional resources and other factors that will lead to a fee variation.
- Concentrate available resource on audits where the financial statements have been prepared to a good quality and sufficient resources are in place to support the audit, to maximise the progress we are able to make on addressing the backlog.
- Consider and report on the adequacy of the Council's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- Consider the use of other statutory reporting powers to draw attention to weaknesses in Council financial reporting arrangements where we consider it necessary to do so.



02 Overview of our 2023/24 audit strategy

Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters we expect to include within our Audit Planning Report. It seeks to provide the Audit & Risk Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus


Risk/area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk/ Significant risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed that this risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of land and buildings – valued under Existing Use Value (EUV) / Fair Value (FV)	Significant risk	No change in risk or focus	The valuation of land and buildings represent material figures within the Council's financial statements. The valuation of those assets valued on an EUV or FV basis is reliant upon expert valuations based on information provided by the Council, which includes a number of judgements and assumptions. Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.
Valuation of investment property – valued under Existing Use Value (EUV) / Fair Value (FV)	Significant risk	No change in risk or focus	The valuation of investment properties represent material figures within the Council's financial statements. The valuation of those assets valued on an EUV or FV basis is reliant upon expert valuations based on information provided by the Council, which includes a number of judgements and assumptions. Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.

Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit & Risk Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Pension Liability Valuation	Inherent risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of the management experts and assumptions underlying fair value estimates.</p>
Going Concern Disclosure	Inherent risk	No change in risk or focus	<p>There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. There is a need for the Council to ensure its going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive.</p> <p>The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p>
General Ledger	Inherent risk	Change in risk or focus	<p>In April 2022 the Council updated its General Ledger to ORACLE Fusion. In order for us to gain assurance over the transition, including the completeness of data subject to transfer, we will need to undertake a programme of work to assess the change and also to understand the new mapping arrangements. In addition, we will also review any relevant internal audit work undertaken to support the implementation.</p>
Group Boundary Assessment	Inherent risk	Change in risk or focus	<p>The Council has established a housing subsidiary company as part of a joint venture. The venture will allow the Council to re-house people who are currently in temporary accommodation in affordable rent housing, helping to reduce the Council's reliance on market-rent properties.</p> <p>As part of the accounting for the new joint venture we will need to assess the Council's assessment of its group boundary which may have implications for the preparation of Group Accounts should the transactions be material in nature.</p>



Overview of our 2023/24 audit strategy

Audit scope

We plan to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to those risks. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". Therefore to the extent any of these or any other risks are relevant in the context of the Council's audit, and we will continue to discuss these with management as to the impact on the scale fee.

Overview of our 2023/24 audit strategy

Audit scope (cont'd)

Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

The changes proposed by the consultations are likely to have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Audit & Risk Committee as the audit progresses and our assessment on the required scope and nature of procedures we will undertake becomes clearer. As examples:

- ▶ Where prior year audit opinions are modified work will be required to gain assurance, where possible, on opening balances over the period of the recovery phase (phase 2). Where we are unable to gain assurance over opening balances, we anticipate that this may lead to limitation of scope of our audit over those balances.
- ▶ Where prior year audit opinions are modified, and particularly where we do not have assurance spanning a number of historic financial years, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase.
- ▶ Changes to the Code of Audit Practice on Local Authority Accounting will potentially impact on our assessment of audit risk generally, risks associated with significant accounting estimates, such as the valuation of operational property, plant and equipment and the related need to rely on management's and auditor's specialists.

Overview of our 2023/24 audit strategy

Value for Money

We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to prepare a commentary under three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council's arrangements against three reporting criteria:

- ▶ Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
- ▶ Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
- ▶ Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

The commentary on the Council's value for money arrangements will be included in the Auditor's Annual Report.

Key Audit Partner and senior audit team



Elizabeth Jackson – Partner
Elizabeth will be new in her role as Engagement Partner for 2023/24. Elizabeth has experience working across a number of other London Borough audits. Elizabeth will also be the Partner for Bromley Pension Fund.



Natalie Clarke - Senior Manager
Natalie has experience in the delivery of London Boroughs and upper tier local authorities and will be the Senior Manager for London Borough of Bromley for 2023/24.



03 Audit Timeline



Audit Timeline

Timeline

Delivery to our proposed timeline is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies.

See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>.

In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- assign responsibilities clearly to staff with the appropriate expertise and experience;
- provide necessary resources to enable delivery of the plan;
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

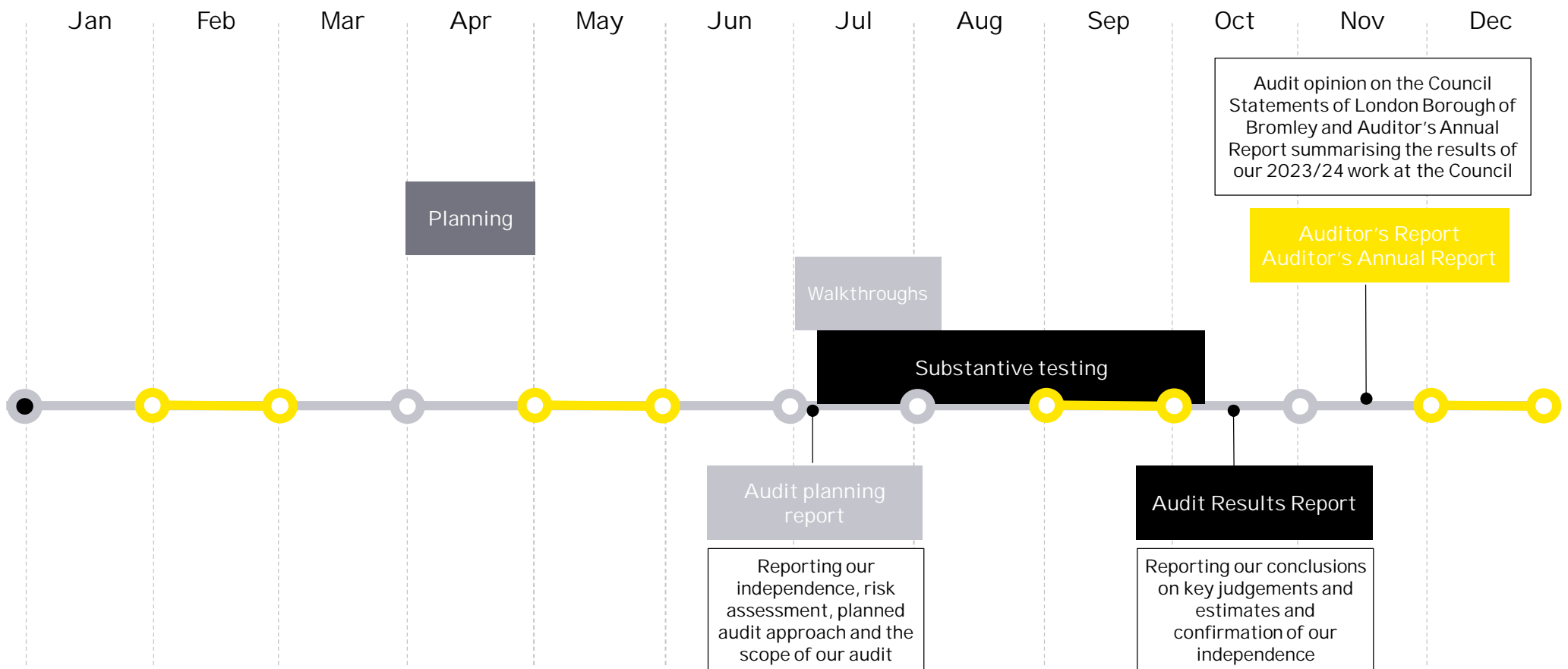
28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

From time to time matters may arise that require immediate communication with the Audit & Risk Committee and we will discuss them with the Audit & Risk Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





04

Audit Fees

Audit Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council;
- ▶ The Council has an effective control environment; and
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full section 3 of this report.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

	2023/24	2021/22 & 2022/23	2020/21
	£	£	£
Total Fee – Code Work	334,304 Note 3	Note 2	91,689
Scale fee adjustment	TBC	TBC	TBC - Note 1
Total audit fees	TBC	TBC	TBC

All fees exclude VAT

- (1) The 2020/21 audit will not be completed and so the fee will need to be calculated based on the substantial work completed to date and also the work on our Value for Money Conclusion and the disclaimed opinion.
- (2) The 2021/22 and 2022/23 audit fees will be adjusted to reflect the work completed in respect of our Value for Money Conclusion and the disclaimed opinion. The respective scale fees for 2021/22 and 2022/23 was £91,689 and £96,457 respectively.
- (3) The revision to ISA (UK) 315 will impact on our scope and approach, and require us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements. We expect to charge addition fee for this. The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:
 - Consideration of correspondence from the public and formal objections.
 - New accounting standards, for example full adoption or additional disclosures in respect of IFRS 16.
 - Non-compliance with law and regulation with an impact on the financial statements.
 - VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
 - The need to exercise auditor statutory powers.
 - Prior period adjustments.
 - Modified financial statement opinions