

# *Wandsworth Borough Council*

## *Annual Audit Letter*

2014/15

Government and  
Public Sector

October 2015

# Contents

## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In April 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

<b>Introduction</b>	<b>1</b>
<b>Audit findings</b>	<b>3</b>
<b>Other matters reported to those charged with governance</b>	<b>5</b>
<b>Final fees</b>	<b>7</b>

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# Introduction

## *The purpose of this letter*

This letter summarises the results of our 2014/15 audit work for members of Wandsworth Borough Council (“the Council”).

We have already reported the detailed findings from our audit work to the Audit Committee in the following reports:

- Audit opinion for the 2014/15 Statement of Accounts, incorporating conclusion on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Consistency audit opinion on Wandsworth Borough Council Pension Fund Annual Report 2014/15; and
- Report to those charged with Governance (ISA (UK&I) 260).

We expect to issue the Annual Certification Report for 2014/15 in December 2015.

The matters reported here are the most significant for the Council.

We thank the management and staff of the Council for their co-operation and assistance during the course of our term of appointment.

## *Scope of work*

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As an administering Council of a pension fund, the Council is also responsible for preparing and publishing Accounting Statements for the Wandsworth Borough Council Pension Fund.

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued in June 2015 and is conducted in accordance with the Audit Commission’s Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

This is the final year of the Audit Commission framework contract and therefore our final year as your external auditor. On 1 April 2015, the Audit Commission ceased to exist. A novation of the original contract was signed, whereby these responsibilities have transferred to the Public Sector Audit Appointments Limited (“PSAA”). Therefore, all references to Audit Commission and PSAA in this report refer to the same body.

We met our responsibilities as detailed on the next page.

Audit Responsibility	Results
<i>Perform an audit of the accounts and pension fund accounting statements in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&amp;I)).</i>	<p>▶ We performed an audit of the statement of accounts and pension fund accounting statements and reported our findings to the Audit Committee on 24 September in our 2014/15 Report to those charged with governance (ISA (UK&amp;I) 260).</p> <p>We issued an unqualified opinion on 28 September 2015.</p>
<i>Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.</i>	<p>▶ We undertook our work on the Whole of Government Accounts consolidation pack. The assurance statement was certified on 28 September 2015 and the audited pack was submitted on 1 October 2015.</p> <p>We found no areas of concern to report in this context.</p>
<i>Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.</i>	<p>▶ We issued an unqualified conclusion on 28 September 2015 in respect of the two criteria detailed by Audit Commission requirements.</p>
<i>Consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</i>	<p>▶ We reviewed the Annual Governance Statement to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.</p>
<i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i>	<p>▶ No matter was noted in the course of the audit that required a report in the public interest.</p>

Audit Responsibility	Results
<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act 1998.</i>	<p>▶ No action is considered necessary in relation to our responsibilities under the Audit Commission Act.</p>
<i>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</i>	<p>▶ We issued our completion certificate on 28 September 2015.</p>
<i>Issue a report noting whether or not the pension fund financial statements in the pension fund annual report and accounts are consistent with those in the Council's statement of accounts.</i>	<p>▶ We issued an unqualified opinion on the consistency of the Council's Pension Fund Annual Report on 28 September 2015.</p>

*We reported our audit findings to the Audit Committee in our 2014/15 Report to those charged with governance.*

## Audit findings

### Accounts

We audited the Council's Statement of Accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 28 September 2015.

Our Report to Those Charged with Governance (ISA (UK&I) 260), detailing the findings from our audit, was presented to the Audit Committee on 24 September 2015.

We wish to draw the following points, included in that report, to your attention in this letter.

#### 1) Valuation of Property, Plant and Equipment and Investment Properties

The Council utilised the expertise of Wilks, Head & Eve LLP ("WH&E") in evaluating the valuation of the Council's property, plant and equipment and investment properties for the first time this year

Our internal valuation experts reviewed the assumptions and methodologies used by WH&E and commented on the approach of apportioning land values as a percentage of building costs in their valuation. We performed a reasonableness check on the values assigned per WH&E's approach by benchmarking them to land values per acre, and we do not consider there to be a material difference in terms of how the land values are calculated.

#### 2) Housing benefit overpayments provision

Until 2013/14, the Council provided for its housing benefit overpayments provision at 90.4% based upon previous CIPFA guidance. However, having considered actual collection rates, the Council has revised this provision in 2014/15 to 20%, resulting in a £12.5m reduction.

Management informed members of the material impact of this change in the report to the Executive in June 2015 regarding the Council's financial results for the year 2014/15.

We have no further matters that we wish to draw to your attention in this regard.

#### 3) Accounting for schools

In December 2014, CIPFA released LAAP Bulletin 101 "Accounting for Non-Current Assets Used by Local Authority Maintained Schools". The LAAP Bulletin focused on the accounting treatment for the non-current assets used by schools under the Code of Practice on Local Authority Accounting in the United Kingdom ("the Code").

The Council carried out an exercise to ensure that it applied the guidance in LAAP Bulletin 101. This has resulted in a prior period restatement, which is explained in the Statement of Accounts in Note 1.5. In summary, the non-current assets of the Council have increased by £10.3m as at 31 March 2013, by £12.2m as at 31 March 2014 and by £12.8m as at 31 March 2015.

We have audited the prior period adjustment to ensure the opening balances and comparative amounts for the prior period have been amended appropriately. We have no matters that we wish to draw to your attention.

### *Use of resources*

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether the Council had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

- that the organisation has proper arrangements in place for securing financial resilience; and
- that the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

The Council has set out a financial strategy from 2015/16 to 2017/18. There is a notable "budget gap" in the financial forecast up until 2017/18 as reported to the Executive in June 2015 and detailed below:

Financial year	Cumulative budget gap (£m)
2015/16	0.0
2016/17	32.3
2017/18	54.0

We are aware the Council is in the process of determining actions to reduce the Council's medium term "budget gap" and to update it to take into account the Spending Review when published in November 2015 and the Local Government Finance Settlement in December 2015.

We issued an unqualified conclusion on 28 September 2015 in respect of the two criteria.

Given there are remains uncertainty in closing the budget gap, the Council will need to ensure actions are underway to resolve the "budget gap" as identified by its medium term financial strategy up until 2017/18.

### *Annual governance statement*

Local authorities are required to produce an Annual Governance Statement ("AGS") that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context

### *Whole of government accounts*

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the National Audit Office. We found no areas of concern to report in this context.

### *Certification of claims and returns*

We presented our most recent Annual Certification Report for 2013/14 to those charged with governance on 24 September 2015. We certified two claims worth £222 million. In one case, a qualification letter was required to set out the issues arising from the certification of the claim. However, no amendment was required to the claim. These details were also set out in our Annual Certification Report for 2013/14.

We expect to issue the Annual Certification Report for 2014/15 in December 2015.

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## ***Other matters reported to those charged with governance***

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

<b>Recommendation</b>	<b>Management response</b>	<b>Target implementation date</b>
<b>Main audit</b>		
<b>Schools bank reconciliations</b>  The Council should continue to communicate and educate schools in the importance of doing accurate reconciliations and the Council's own policies for writing off overdue cheques or receipts. Authorising officers should check and enforce these policies when reviewing bank reconciliations.  In addition, ledger balances that relate to closed accounts should be cleared.	The majority of the schools bank reconciliation items have now been cleared and work continues with the remainder.  Schools will again be reminded that it is Council policy for cheques over 6 months old to be written back. Independent checks will also be undertaken to ensure that this action is taken.  The ledger balances relating to closed accounts included two schools that converted to Academy status during 2014/15, and one school where a refund from HMRC was awaited. These balances have been cleared following both the necessary calculation of final balances to be transferred in respect of the former, and receipt of the amount due on the latter.	Target date – October 2015  Responsible individual – Maria Bishop (FMS Trading A/C Manager)
<b>Recognition of income and expenditure around year-end</b>  The Council should continue to communicate and educate officers regarding the recognition of income and expenditure around year-end in applying the accruals concept.	Agreed. Comprehensive instructions are issued to staff every year, but even greater emphasis will be provided for this aspect for next year's accounts.	Target date – February 2016  Person Responsible – Jean Stevenson (Deputy Chief Accountant)

Pension fund		
<p><b>Year-end purchases and sales reconciliation</b></p> <p>We recommend that a final year-end reconciliation of the purchases and sales figures between the custodian and the investment managers is performed. This will assist in identifying and explaining any differences that are noted.</p>	<p>Agreed. A final year-end reconciliation of the purchases and sales figures between the custodian and the investment managers will be performed by the end of May 2016.</p>	<p>Target date – May 2016</p> <p>Responsible individual – Peter Harris (Pension Fund Controller)</p>
<p><b>Updates to the scheme administration system for new members</b></p> <p>The pension's administration team should review the submissions of contributions by employee against the pension's administration system on a quarterly basis.</p> <p>In particular, this should take place when the fund expects to have new members join, such as each September of each year when schools are likely to employ new members of staff, to identify new members.</p>	<p>Agreed. A quarterly review of the monthly submissions of contributions by employee against the pension's administration system will occur for the June, September, December and March returns.</p>	<p>Target date – November 2015</p> <p>Responsible individual – Colette Hollands (Head of Pensions Shared Service)</p>



# Final fees

## Final fees for 2014/15

We reported our fee proposals in our Audit Plan in June 2015. Our fees are currently in line with those proposed.

Our fees to be charged are therefore:

	2014/15 outturn	2014/15 fee proposal	2013/14 final outturn
Audit work performed under the Code of Audit Practice*	152,118	152,118	152,145
- Statement of Accounts			
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources			
- Whole of Government Accounts			
Pension fund*	24,318	24,318	24,318
Certification of claims and returns**	29,040	29,040	32,692
<b>Sub-total</b>	<b>205,476</b>	<b>205,476</b>	<b>209,155</b>
Other certification reviews***	16,250	8,750	8,750
<b>Total</b>	<b>221,726</b>	<b>214,226</b>	<b>217,905</b>

*\*We are currently in the process of agreeing the fee over and above the scale element with the PSAA for the main audit and the pension fund, and will report the final position once confirmed with management.*

*\*\*Our fee for certification of claims and returns is yet to be finalised for 2014/15 and we expect to report it to those charged with governance in December 2015 within the 2014/15 Annual Certification Report.*

*\*\*\*We performed a Teachers' Pension review and a Pooling of Housing Capital Receipts review during 2014/15. Both reviews fell outside of the Code of Audit Practice requirements. We had originally planned to do just the Teachers' Pension review. However, the outturn includes the Pooling of Housing Capital Receipts review, which was agreed subsequent to our fee proposal. The work is ongoing for both reviews at the date of writing this report, with both reviews due to be certified by 30 November 2015.*



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