

Wandsworth Borough Council and Wandsworth Pension Fund

Annual Audit Letter for the year ended
31 March 2018

August 2018

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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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)

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 (updated 23 February 2017)' 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 Annual Audit Letter 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 Steve Varley, 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

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Wandsworth Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's and Pension Fund's:	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2018 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary (continued)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our initial audit results report was issued on 12 July 2018, and considered by the Audit Committee on 24 July 2018. Following the Committee we issued a revised Audit Results Report on 26 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	<p>We have not as yet issued our audit completion certificate.</p> <p>We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Wandsworth Pension Fund. The Local Government Pension Scheme Regulations require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Council has not yet prepared the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements.</p> <p>Until we have completed these procedures 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.</p>

We would like to take this opportunity to thank the Council and Pension Fund's staff for their assistance during the course of our work.

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP



02

Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 24 July 2018 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 8 January 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2017/18 financial statements, including the pension fund; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 July 2018 for the Pension Fund and 31 July 2018 for the Council. Our detailed findings were reported to the 24 July 2018 Audit Committee, with an updated Audit Results Report issued on 26 July 2018 to provide a further update to the committee.

The key issues identified as part of our audit of the Council were as follows:

Significant Risk

Misstatements due to fraud or error

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

As identified in ISA (UK and Ireland) 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.

For the Council we focused our testing on capital additions, including Revenue expenditure funded from capital under statute (REFCUS) £17.1m (£27.5m in 2016/17) and whether this expenditure had been correctly classified.

These impact both on the Balance Sheet and Income Statement.

For the Pension Fund we have assessed that the risk of management override is most likely to affect the estimates in the financial statements, such as year end accruals, provisions and asset valuations. These impact both on the Balance Sheet and Income Statement.

Conclusion

We addressed the residual risk of management override through the following procedures:

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood 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.
- For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support these additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16 to mitigate the risk of inappropriate capitalisation of revenue expenditure.
- For a sample of REFCUS we have confirmed that the treatment is appropriate in accordance with the regulations

We have not identified any;

- inappropriate treatment of revenue expenditure as capital;
- material weaknesses in controls or evidence of material management override;
- instances of inappropriate judgements being applied;
- other transactions during our audit which appeared unusual or outside the Council's normal course of business.



Financial Statement Audit (continued)

Significant Risk

Risk of fraud in revenue and expenditure recognition

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 focused on the completeness of the Community Infrastructure Levy (CIL) income included within Capital Grants and Contributions of £86m (£104m in 2016/17).

In our plan we communicated that we would focus on the risk of inappropriate capitalisation of revenue expenditure.

Conclusion

We obtained a listing of developments generating CIL income from the planning department (independent from finance).

We requested copies of development agreements for all active CIL agreements with values greater than £800k. We reviewed these agreements to form our independent expectation of CIL income.

We then compared this with the CIL income actually recognised in capital grants and contributions to confirm that it is complete.

We found CIL receipts to have been appropriately accounted for.

Financial Statement Audit

The key issues identified as part of our audit of the Pension Fund were as follows:

Significant Risk	Conclusion
<p>Misstatements due to fraud or error</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 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.</p> <p>We have assessed that the risk of management override is most likely to affect the estimates in the financial statements, such as year end accruals, provisions and asset valuations. These impact both on the Balance Sheet and Income Statement.</p>	<p>We performed the procedures outlined in our Plan, this included the following:</p> <ul style="list-style-type: none">• Tested journals at year-end to ensure there were no unexpected or unusual postings;• Compared the investment income reported by the custodian and used in the statements to the income reported by fund managers and included in the fund managers reports and ensuring that any significant variances have been investigated and resolved;• Re-performed the detailed investment note using the reports we acquired directly from the custodian or fund managers;• Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports;• Reviewed accounting estimates for evidence of management bias; and• For quoted investment income, agreed the reconciliation between fund managers and custodians back to the source reports. <p>We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.</p> <p>Our testing has not identified any material misstatements for investment income or year end investment assets.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions or journal entries during our audit which appeared unusual or outside the Fund's normal course of business</p>

Financial Statement Audit (continued)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £20.4m (2017: £21.6m), which is 2% of gross revenue expenditure reported in the accounts.</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We determined planning materiality for the Pension Fund to be £45.3m (2017: £21.8m), which is 2% of net assets reported in the accounts.</p> <p>We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1m (2017: £1.08m) for the Council, and £2.26m (2017: £1.09m) for the Pension Fund.</p>



04 Value for Money

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.

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.



We identified a significant risk in relation to these arrangements. The table below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Value for Money (continued)

We therefore issued an unqualified value for money conclusion on 31 July 2018.

Significant Risk	Conclusion
<p>Joint working with London Borough of Richmond upon Thames</p> <p>The shared staffing arrangement (SSA) with Richmond began on 1 October 2016.</p> <p>Through the shared staffing arrangement, you are seeking to deliver up to £10 million of savings per annum to the Council through staffing and other joint arrangements.</p> <p>Working with partner organisations can present risks due to the different organisational and cultural views, with potentially conflicting priorities.</p> <p>We consider this to be a risk as the project is complex and high profile, and will be subject to public scrutiny.</p>	<p>The SSA has been in place for over 18 months and is on track to deliver the savings that it set out to do, with minimal impact on the service delivery and quality.</p> <p>In terms of the savings delivery, a level of recurrent savings had already been achieved, this amounted to £7.9m in 2017/18. This will therefore support the £10m of savings that the Council set out to achieve by 2019/20 and going forwards.</p> <p>There has been an element of costs, but these are within the budget, and the Council has set aside an earmarked reserve, £6.154m at 31 March 2018, to cover any additional costs.</p> <p>From review of the arrangements put in place to monitor and respond to the risk of the SSA we are satisfied that these were appropriate to manage the risks in relation to working jointly with the London Borough of Richmond Upon Thames.</p> <p>There is adequate reporting to allow oversight and scrutiny by members of Wandsworth Borough Council through the reports taken to the Finance and Corporate Resources Overview and Scrutiny Committee, and through the joint committees established as part of the SSA.</p>



05 Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to 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 is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 24 July 2018. 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 regulatory and professional requirements.



Other Reporting Issues (continued)

Control Themes and Observations

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.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.



06

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Re-measure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> • Leases; • Financial instruments; • Insurance contracts; and • For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p>



Focused on your future (continued)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>



07

Audit Fees

Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our Audit Plan.

Description	Final Fee 2017/18 £	Planned Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Total Audit Fee – Council	112,414	112,414	112,414	112,414
Total Audit Fee – Certification of claims and returns	TBC*	TBC*	22,199	25,065
Total Audit Fee – Pension Fund	27,500	27,500	27,500	28,500

* The work on certification of claims and returns is not completed, we will communicate the final fee in our grant certification report.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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