



Wandsworth Borough
Council and Wandsworth
Pension Fund

Annual Audit Letter for the year
ended 31 March 2019

February 2020

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

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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).

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 set 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 and Terms of Appointment. 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) and Wandsworth Pension Fund (the Pension Fund) following completion of our audit procedures for the year ended 31 March 2019.

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 2019 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 annual governance statement	The annual 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 (cont'd)

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 audit results reports for the Council and the Pension Fund were issued on 31 July 2019, and presented to the Audit Committee on 31 July 2019.
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.	All audit procedures have been completed, allowing us to issue our certificate.

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 2018/19 audit results reports to the Audit Committee and Joint Pensions Committee on 31 July 2019, 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 2018/19 audit work has been undertaken in accordance with the audit plans that we issued in January 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2018/19 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 the 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 (AGS). In the AGS, 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 - Council

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 other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2019.

Our detailed findings were reported to the Audit Committee and Joint Pensions Committee on 31 July 2019.

The key issues identified as part of our audit of the Council's accounts 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) 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.

Conclusion

In response to this risk, we:

- Made inquiries of management about risks of fraud and the controls put in place to address those risks.
- Obtained an understanding 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.
- Performed mandatory procedures regardless of specifically identified fraud risks, including;
 - Testing of journal entries and other adjustments in the preparation of the financial statements.
 - Review accounting estimates for evidence of management bias.
 - Evaluating the business rationale for significant unusual transactions.

Our audit work did not identify any material issues, inappropriate judgements or unusual transactions which indicated that there had been any misreporting of the Council's financial position, or that management had overridden control.

We were satisfied that accounting estimates were fairly stated, journal entries had been posted properly and for genuine business reasons and that any unusual transactions were supported by appropriate audit evidence.

Financial Statement Audit - Council (cont'd)

The key issues identified as part of our audit of the Council's accounts were as follows: (cont'd)

Significant Risk	Conclusion
<p>Risk of incorrect capitalisation of revenue expenditure</p> <p>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.</p> <p>We believed the risk of manipulation was most likely to manifest in the incorrect capitalisation of revenue expenditure, as there is an incentive to reduce expenditure in the general fund which is funded from council tax.</p>	<p>In response to this risk, we:</p> <ul style="list-style-type: none">• Tested PPE additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.• Confirmed that Revenue Expenditure Funded from Capital Under Statue (REFCUS) is immaterial.• Identified and obtained an understanding of the basis for significant journals transferring expenditure from revenue to capital codes within the general ledger. <p>The results of our testing showed that capital expenditure recorded in the financial statements was appropriately recorded, and was genuinely capital in nature. We were also satisfied that REFCUS appropriately met the requirements to be financed from capital resources. Finally, we were satisfied that there were no issues arising from journals posted within the general ledger.</p> <p>We therefore concluded that there is no evidence the Council had incorrectly capitalised revenue expenditure.</p>

Financial Statement Audit – Council (cont'd)

We also identified a number of areas of audit focus related to the Council's accounts:

Areas of Audit Focus	Conclusion
<p>Valuation of Land and Buildings/Investment Properties:</p> <p>In our audit planning report, we identified the valuation of land, buildings and investment properties as an area that was not a significant risk, but was an area of audit focus due to its complexity and size within the financial statements. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p>	<p>In response, we completed the following procedures, we:</p> <ul style="list-style-type: none"> • Considered the work performed by the Council's valuer (Wilks, Head & Eve). • Challenged the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists. • Sample tested key asset information used by the valuer in performing their valuation (e.g. building areas to support valuations based on price per square metre). • Confirmed that valuation was undertaken to ensure all assets required to be valued in line with the Council's 5 year rolling programme had been completed, and that all investment property had been revalued in year as required by the Code. • Checked those assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated. • Reviewed and challenged where necessary any changes to useful economic lives as a result of the most recent valuation. • Tested the accounting entries posted via journal to ensure they have been correctly processed in the financial statements. <p>We reported that the Council had appropriately accounted for the valuation of land, buildings and investment property.</p>
<p>Pension Liability Valuation:</p> <p>In our audit planning report, we identified the valuation of the Council's pension liability as an area of audit focus. The Council's pension fund deficit is a material estimated balance 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. 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 management experts and the assumptions underlying fair value estimates.</p>	<p>In response, we completed the following procedures:</p> <ul style="list-style-type: none"> • obtained assurances over the information supplied to the actuary in relation to the Council. • 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 the 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 IAS19. • undertook sufficient procedures to make an assessment of the accuracy of estimated information included in the financial statements and whether adjustments are required. <p>As a result of these procedures, and subsequent to adjustments arising due to the McCloud ruling, we were satisfied the Council had properly accounted for the Pension Liability Valuation and that the estimate was based upon reasonable assumptions and accurate information.</p>

Financial Statement Audit - Council (cont'd)

We also identified a number of areas of audit focus related to the Council's accounts (cont'd):

Areas of Audit Focus	Conclusion
<p>IFRS 9 – Financial Instruments:</p> <p>In our audit planning report, we outlined the new requirements relating to financial instruments. The new requirements 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>In response, we completed the following procedures:</p> <ul style="list-style-type: none"> • we assessed the Council's implementation arrangements, which included its assessment of the impact of the new standard. Based upon our procedures we identified no evidence that this standard would have a significant impact on the Council's accounts beyond new disclosure requirements. • we confirmed the Council's accounting policies had been correctly updated for the new standard, and that this new policy had been appropriately applied. • we confirmed the additional disclosure requirements had been included within the draft financial statements.
<p>IFRS 15 – Revenue from Contracts with Customers</p> <p>IFRS 15 is another new accounting standard relevant for the 2018/19 financial period. 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>In response to the new standard, we :</p> <ul style="list-style-type: none"> • assessed the Council's implementation arrangements for the new standard, confirming there is no material impact of the standard on the Council's accounts. • considered the application of the standard to the Council's revenue streams and confirmed that in line with the Council's assessment, we do not believe there to be a material impact. • confirmed the Council's accounting policies have been properly updated to reflect the new standard. • confirmed that the additional disclosure requirements have been included in the financial statements.
<p>Group Accounting</p> <p>When presenting our audit planning report, we were not aware the Council would prepare group accounts following the agreement of a joint venture with Taylor Wimpey UK Limited called Winstanley and York Road Regeneration LLP. This was because the Council had not yet confirmed the impact of this arrangement on the disclosures within the 2018/19 financial statements. The group accounts take the form of a Group Comprehensive Income and Expenditure Statement, Group Balance Sheet, Group Movement in Reserves Statement and Group Cash Flow Statement.</p>	<p>We assigned a specific scope to the audit of the group items, as these are limited in nature to the Council's investment in the joint venture and it's share of any surplus/deficit. We carried out appropriate substantive procedures to ensure we are satisfied with both the technical accounting treatment employed, and the balances included in both the Council and the Group statements. This included:</p> <ul style="list-style-type: none"> • agreeing the investment in the joint venture to supporting documentation. • ensuring the Council had followed the relevant accounting practices and included relevant balances in the consolidated accounts in accordance with the equity accounting concept. <p>We also assigned a separate materiality level of £4.455m to the testing of these items. Our reporting threshold remained the same as for the Council at £0.99m.</p> <p>We note that we identified no fraud, suspected or otherwise in relation to group management, component management, or employees who have significant roles in group-wide controls from the work we undertook.</p>

Financial Statement Audit – Pension Fund

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

Significant Risk	Conclusion
<p>Risk of manipulation of Investment income and valuation</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 assessed that the risk of manipulation of investment income and valuation through management override of controls was most likely to affect investment income and assets in the year, specifically through journal postings.</p>	<p>We:</p> <ul style="list-style-type: none"> ▶ tested journals at year-end to ensure there are no unexpected or unusual postings. ▶ undertook a review of reconciliations to the fund manager, custodian and valuer reports and investigated any reconciling differences. ▶ re-performed the detailed investment note using the reports we have acquired directly from the custodian, valuer 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, including estimates with a higher level of inherent risk such as the IAS26 Current Value of Promised Retirement Benefits. ▶ for quoted investment income we agreed the reconciliation between fund managers and custodians back to the source reports. <p>We did not identify any material weaknesses in controls or evidence of material management override; or any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Pension Fund’s normal course of business.</p>
<p>Valuation of complex investments</p> <p>The Fund’s investments include a significant balance of level 3 investments such as unquoted pooled infrastructure and private debt investments. Judgements are taken by investment managers to value those investments whose prices are not publicly available.</p> <p>Current market volatility means such judgements can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end.</p> <p>Misstatements that occur in relation to level 3 fair value hierarchy such as infrastructure and private debt investments could affect the valuation of the Net Assets Statement and investment income in the Fund Accounts.</p>	<p>We:</p> <ul style="list-style-type: none"> ▶ reviewed the basis of valuation for the infrastructure and private debt investments and other unquoted investments and assessed the appropriateness of the valuation methods used. ▶ assessed the competence of management experts. ▶ performed analytical procedures and checked the valuation output for reasonableness against our own expectations. <p>We were satisfied the valuation of these investments was fairly stated, in line with our expectations and management experts were appropriately competent.</p>

Financial Statement Audit – Pension Fund (cont'd)

We also identified a number of areas of audit focus related to the Pension Fund's accounts:

Areas of Audit Focus	Conclusion
<p>Application of New IFRS Standards:</p> <p>In our audit planning report, we outlined the 2018/19 code introduced two new financial reporting standards – IFRS 9 and IFRS 15.</p>	<ul style="list-style-type: none">• In relation to IFRS 9 - Financial Instruments, we reviewed the classification and measurement of financial assets to ensure they were valued in line with the standard. This included a review of the expected credit loss impairment model and new disclosure requirements. We have nothing to report in respect of these items.• In relation to IFRS15 – Revenue from Contracts with Customers, we were satisfied that the standard does not have a material impact on the 2018/19 financial statements.

Financial Statement Audit (cont'd)

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 for the Council to be £19.8m (2018: £18.3m), which is 1.8% of Gross Expenditure on the Provision of Services reported in the accounts. We consider Gross Expenditure on the Provision of Services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We also determined planning materiality for the Pension Fund to be £23.9m (2018: £22.6m), which is 1.8% of Net Assets reported in the accounts. 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>For the Council, we agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.99m (2018: £0.916m).</p> <p>For the Pension Fund, we agreed with the Audit Committee and the Joint Pension Committee that we would report to the Committees all audit differences in excess of £1.195m (2018: £1.13m).</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits: we used a materiality of the same level as the disclosure in the accounts – e.g. to the nearest thousand.
- ▶ Related party transactions: we used a materiality of the same level as the disclosure in the accounts – e.g. to the nearest thousand.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no uncorrected misstatements in either the Council or Pension Fund accounts.



04 Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in 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 did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements.

We therefore issued an unqualified value for money conclusion on 31 July 2019.



05 Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We have completed this work and have 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.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2018/19 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 reports to the Audit Committee and Joint Pensions Committee on 31 July 2019. 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.

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 adopted a fully substantive audit approach and did not test the operation of controls.



07

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 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 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 2020/21 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 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, it is clear that the Council will need to undertake a detailed exercise to identify all its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> - new definitions of assets, liabilities, income and expenses; - updates for the inclusion of the recognition process and criteria and new provisions on derecognition; - enhanced guidance on accounting measurement bases; - enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>

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