

London Councils

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 Fire Officer. 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.

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An audit is not designed to identify all matters that may be relevant to those charged with governance. Our audit does not ordinarily identify all such matters.

Introduction

The purpose of this letter

This letter summarises the results of our 2014/15 audit work for members of the Joint Committee.

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 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are the most significant for the Joint Committee.

Scope of Work

The Joint Committee 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.

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued on 5 March 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.

We met our responsibilities as follows:

London Councils

Audit Responsibility

Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).

Report to the National Audit Office on the accuracy of the consolidation pack the Joint Committee is required to prepare for the Whole of Government Accounts.

Results

We reported our findings to the Audit Committee on 24 September 2015 in our 2014/15 *Report to those charged with governance (ISA (UK&I) 260)*.

On 29 September 2015 we issued an unqualified audit opinion.

We were not required to report on the accuracy of the Joint Committee's consolidation pack in relation to the Whole of Government as it is exempt.

Audit Responsibility	Results	Audit Responsibility	Results
<i>Form a conclusion on the arrangements the Joint Committee has made for securing economy, efficiency and effectiveness in its use of resources.</i>	▶ We issued an unqualified conclusion on the Joint Committee's arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2015.	<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>	▶ We had no matters to report in the public interest.
<i>Consider the completeness of disclosures in the Joint Committee'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>	▶ We had no matters to report following our review of the Joint Committee's Annual Governance Statement.	<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	▶ We identified no other action to be taken in relation to our responsibilities under the Audit Commission Act.

Audit Responsibility

Results

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.



We issued our 2013/14 and 2014/15 audit completion certificates on 29 September 2015.

Audit Findings

Accounts

We audited the Joint Committee's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 29 September 2015.

We noted significant issues arising from our audit within our Report to Those Charged with Governance (ISA (UK&I) 260). This report 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.

Parking on Private Land Appeals Service

In September 2013, an objection was raised on the London Councils accounts for 2012/13 by an interested person residing in London. The objection stated that the Transport and Environment Committee (TEC) did not have the legal powers to provide an appeals service for parking on private land for the British Parking Association under contract.

The final statement of reasons to the objector was issued on 28 April 2015, confirming our opinion that the Joint Committee did not have the powers to enter into the contract at the point that it did so. It also reflected the positive action that the Joint Committee had taken to ensure that there was no ongoing unlawfulness.

This matter was fully disclosed in the 2013/14 Statement of Accounts. This disclosure was explicitly referred to in an emphasis of matter included in our 2013/14 audit report but this did not constitute a qualification of our opinion.

We therefore issued the completion certificate on the 2012/13 accounts on 12 June 2015.

The elector then suggested that he had information relating to 2013/14 and 2014/15 on which he was likely to raise

objections so we held the 2013/14 accounts open to provide time for this to happen.

In July 2015 the objector raised further concerns about the fact that income due to London Councils had not been brought to account and asked for action to be taken under section 18 of the Audit Commission Act 1998. We have investigated the numerous issues raised by the objector in the period since then, but did not consider any of the issues to constitute a valid objection to the accounts.

As a result we proceeded to complete the 2014/15 audit and issue the outstanding 2013/14 completion certificate, which we did on the 29th September 2015.

Prior period adjustments

The Committee has made a prior period adjustment in the consolidated statement of accounts. The adjustment is described in Note 24 to the accounts.

The adjustment relates to recognition of the Chief Executive's 2013/14 bonus which was awarded in October 2014. It should be noted that as at the date of the Audit Opinion no determination had been made on the Chief Executive's bonus for 2014/15 so there is no comparative figure for 2014/15.

Judgements and accounting estimates

The Joint Committee is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Continuing operations – There is a high degree of uncertainty about future levels of funding for local government. However, the Joint Committee has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Joint Committee might be impaired as a result of a need to close facilities or for discontinued operations as it reduces levels of service provision. We have considered this as part of our ‘value for money’ work and had no matters to raise with Members.

Valuation of Pensions Liability - The Committee engaged the actuary Barnett Waddingham LLP to estimate the value of the Pension Liability on the balance sheet at 31 March 2015. The calculation involves a number of complex judgements, including appropriate discount rates to be used, mortality rates, expected return on pension fund assets, salary changes and estimates of future retirement ages. We have considered these assumptions against actuarial guidance and have agreed those used to be within a reasonable range. Our work on the Pensions Liability and Assets did not identify any issues to be raised with Members.

Use of Resources

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

Audit Commission guidance specified the criteria for our value for money conclusion as:

- reviewing the annual governance statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor’s responsibilities at the audited body; and
- other local risk-based work as appropriate, or any work mandated by the Commission.

We determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities and identified the following matter.

Medium term financial forecast - The Joint Committee has set out a financial forecast from 2015/16 to 2017/18 in its budget report presented to the Leaders Committee in December 2014. The forecasts show deficits of £20k and £139k in 2016/17 and 2017/18.

We are aware the Joint Committee is in the initial stages of the formal budget round for 2016/17 and as part of that will agree the overall budget strategy for the year with Members, including the process of determining actions to address any deficits. We understand this will take into account the Spending Review when published in November 2015 and the Local Government Finance Settlement in December 2015.

We have considered the assumptions made by management in producing the existing financial forecasts which are:

- the continued requirement to deliver value in borough contributions over the next two years;
- the Freedom Pass costs increasing by 2.0% over the period;
- the TfL element of the taxicard contract is assumed to increase by 1.5%;
- the London Councils borough funded commission remains at £8m per annum for these years, with a similar level borough contributions, plus a further £2m for ESF match funding commissions for these years;
- a 1% increase in salaries and zero on discretionary expenditure budget heads;
- contractually committed expenditure to increase by CPI, 1.3% as at October 2014;
- a zero increase in all other income budget heads; and no planned increase in the use of reserves from the

current level, excluding any one-off payments to boroughs.

It is important that these assumptions are kept under review by Management and Members and that any additional actions required as a result of changes to them are identified and implemented.

We issued an unqualified conclusion, on 29 September 2015, on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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 (WGA)

The Joint Committee is exempt from having to submit returns for the Whole of Government Accounts. As such no work was required in respect of this, which is consistent with previous periods.

Other matters reported to those charged with governance

The recommendations arising from our work in 2014/15 were contained within our Report to those charged with Governance (ISA (UK&I) 260, which was presented to the Audit Committee on 24 September 2015.

This schedule, which contained 1 recommendation was agreed with the Director of Corporate Resources and his team and included the actions the Joint Committee will take to address our recommendation.

The following table includes the matter reported to the Audit Committee along with the management response.

Recommendation	Management Response	Target Implementation Date
Cut-off of expenditure We found two instances where management had not created payments in advance for invoices relating to a period which spanned more than one accounting period. Management explained that this is because unless they are notified by the staff member inputting the invoice, they will not perform a review of that cost centre to check a creditor or payment in advance exists. Management reviewed the whole balance and provided us with a new population to test. We then selected our sample from the new population and tested this, with no further issues noted. We recommend that management carries out a year end exercise to remind staff of the need to consider whether a creditor or payment in advance is needed in respect of expenditure which cuts across more than one year or accounting period.	Agreed. Staff will be reminded of this matter as part of the 2015/16 accounts production process.	30 June 2016

Final Fees

Final Fees for 2014/15

We reported our fee proposals in our audit plan 2014/15.

We have varied our audit fees from those included within our Audit Plan as a result of the change in our audit risk assessment and as a result of overrun costs in auditing the Joint Committee's Statement of Accounts. As noted below, we are currently in the process of agreeing certain of the fees over and above the scale element with Public Sector Audit Appointments Limited (PSAA) and will report the final position in due course. Some of the additional fees have already been agreed by PSAA.

Our fees charged were therefore:

	2014/15 outturn (£)	2014/15 fee proposal (£)
Audit work performed under the Code of Audit Practice	54,058	54,058
- 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		
AR 27 return	1,500	1,500
Objection – 2012/13 Accounts	68,517*	TBC
Potential Objections 2013/14 and 2014/15	22,134**	N/A
Total	146,209	55,558

* Agreed with Management and Public Sector Audit Appointments Ltd

** Agreed with Management and pending approval by Public Sector Audit Appointments Ltd



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