# Wandsworth Borough Council and Wandsworth Pension Fund

## Annual Audit Letter for the year ended 31 March 2020

February 2021

Building a better working world

# Contents



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.psaa.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 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 / Terms and Conditions of Engagement. 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 Hywel Ball, 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.

Section 1

# 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 2020.

Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

| Area of impact | Commentary |
|---|---|
| **Impact on the delivery of the audit** | |
| ► Changes to reporting timescales | As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, were published and came into force on 30 April 2020. This announced a change to the publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. Due to resourcing constraints in the audit and valuation specialist team, we completed our financial statements audit in early February 2021. |
| **Impact on our risk assessment** | |
| ► Valuation of Property Plant and Equipment and Investment Property | The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end. Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively.<br><br>These issues could have a significant impact on investment properties and property, plant and equipment valued with reference to market factors (existing use value – EUV - assets) and we therefore focused our significant risk in relation to the valuation of land, buildings and investment properties due to the materiality of these balances. |
| ► Disclosures on Going Concern | Financial plans for 2020/21 and medium term financial plans needed revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council or Pension Fund would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the actual year end financial position and performance. |
| ► Adoption of IFRS 16 | The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of local authority financial statements was deferred until 1 April 2022. The Council was therefore no longer required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements did not need to be financially quantified in 2019/20. We therefore no longer considered this to be an area of audit focus for 2019/20. |

# Executive Summary (cont'd)

| Area of impact | Commentary |
|---|---|
| **Impact on our risk assessment** | |
| ► Consultation requirements | Additional EY consultation requirements were implemented concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform. |
| **Impact on the scope of our audit** | |
| ► Information Produced by the Entity (IPE) | We identified an increased risk around the ability of the audit team to verify the completeness, accuracy, and appropriateness of information produced by the entity, due to the team working remotely and therefore being unable to verify original documents or re-run reports on-site from the Council's and Pension Fund's systems. We undertook the following to address this risk:<br><br>• Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and<br>• Agreed IPE to scanned documents or other system screenshots. |

The tables below set out the results and conclusions on the significant areas of the audit process.

| Area of Work | Conclusion |
|---|---|
| **Opinion on the Council and Pension Fund's:** | |
| ► Financial statements | Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2020 and of the expenditure and income for the year then ended. |
| ► 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 had put in place proper arrangements to secure value for money in your use of resources. |

# Executive Summary (cont'd)

Results and conclusions on the significant areas of the audit process continued:

| 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 and Pension Fund, 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 on our review of the Council's Whole of Government Accounts (WGA) return. | The Council's WGA submission pack needed to be updated for adjustments to the financial statements. Our work on the Council's WGA is currently in progress following receipt of this document. |

# 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 and Pension Fund communicating significant findings resulting from our audit. | A draft of our Audit Results Report for the Pension Fund was presented to the Joint Pensions Committee on 16 September, and an updated report was presented to the Audit Committee on 11 November 2020.A draft of the Audit Results Report for the Council was issued to the same Audit Committee meeting on 11 November 2020.<br><br>We issued updated versions of the reports on 8 February 2021. |
| 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. | We will issue our certificate upon completion of the WGA procedures. |

We would like to take this opportunity to thank the Council and Pension Fund staff for their assistance during the course of our work and in particular given the challenging priorities they faced as a result of their work in responding to the Covid-19 pandemic. This collaborative approach enabled us to complete the 2019/20 audit by working remotely.

Helen Thompson

Helen Thompson
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

# Purpose and Responsibilities

# Purpose

## 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 and Pension Fund.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Reports to the 16 September 2020 Joint Pensions Committee and 11 November 2020 Audit Committee, representing those charged with governance for the Pension Fund and Council respectively; and through our updated reports issued on 8 February 2021. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council and Pension Fund.

# Responsibilities

## Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plans that we issued on January 2020 (Council) and March 2020 (Pension Fund) and Audit Plan Updates issued in August 2020, 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 2019/20 financial statements of the Council and 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 on your Whole of Government Accounts return.

## 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.

Section 3

# 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'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 15 January 2021.

Our detailed findings were reported to the 11 November 2020 Audit Committee and updated through our final Audit Results Report issued on 8 February 2021.

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

| Significant Risk | Conclusion |
| --- | --- |
| Misstatements due to fraud or error<br><br>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.<br><br>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.<br><br>We identify and respond to this fraud risk on every audit engagement. | Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We also focused specifically on capitalisation of expenditure as a potential area of manipulation, which is recorded as a separately identified significant risk on the next page of this report.<br><br>Our work on estimates focussed on Property, Plant & Equipment and Investment Property valuation (identified as a significant risk estimate), and the IAS19 pension (identified as a high risk estimate). Our findings on these areas are set out on subsequent pages in this section of our report.<br><br>Our approach focused on:<br>• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.<br>• Assessing accounting estimates for evidence of management bias.<br>• Evaluating the business rationale for significant unusual transactions.<br><br>Further to this, we:<br>• Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding of the oversight given by those charged with governance of management's processes over fraud.<br>• Considered the effectiveness of management's controls designed to address the risk of fraud.<br><br>Our audit work provided assurance that there:<br><br>• was no evidence of material management override.<br>• were no instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions, although several misstatements were identified within the Councils valuation of Property, Plant & Equipment and Investment Property balances.<br>• were no other transactions which appeared unusual or outside the Council's normal course of business. |

# Financial Statement Audit - Council

| Significant Risk | Conclusion |
|---|---|
| Risk of fraud in revenue and expenditure recognition<br><br>Under ISA (UK) 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.<br><br>We assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.<br><br>The value of Property, Plant & Equipment (PPE) additions in 2019/20 was £140.405m, and there were no Investment Property (IP) additions in 2019/20.<br><br>The value of revenue expenditure funded from capital under statute (REFCUS) was £27.377m. | Our approach was as follows:<br>• We selected a sample of additions, using lowered testing thresholds, and tested a sample of additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. We also ensured the transaction was supported by sufficient evidence to verify its value and the period it related to.<br>• We tested a sample of REFCUS, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. As with PPE additions, we also ensured these items were supported by sufficient evidence to verify the value and period to which it related.<br>• We identified and tested significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year. This provided assurance that the transactions were adequate, supported by evidence and valid.<br>Our testing of additions, REFCUS expenditure and journals did not identify any indications of inappropriate capitalisation of revenue expenditure; or inappropriate classification of transactions as REFCUS.<br><br>We identified £968,000 of property, plant and equipment additions which had been incorrectly classified as REFCUS. However, we were satisfied that it was appropriate to capitalise these items. |

# Financial Statement Audit - Council (cont'd)

| Significant Risk | Audit Response |
| --- | --- |
| Valuation of Land and Buildings/Investment Properties<br><br>The valuation of land, buildings, dwellings and investment properties represent material figures within the Council's financial statements. The valuation of these assets 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.<br><br>We focused on those assumptions that directly impact the valuation of these assets – such as the use of information based on areas of the economy under stress (such as retail), location factors, useful lives and estimation of year on year valuation movements.<br><br>In light of the market volatility brought about by Covid-19, and the inclusion of a material uncertainty paragraph in the external valuer's report we determined that the valuation of land, buildings, dwellings and investment properties should become a significant risk.<br><br>Our work was focused on those assumptions that directly impact the valuation of these assets – such as the use of information based on areas of the economy under stress (such as retail), location factors, useful lives and estimation of year on year valuation movements.<br><br>The value of Land and Buildings in the draft accounts at 31 March 2020 was £2,541m. The value of Investment Properties was £55.94m. | Our approach was as follows. We:<br><br>• Challenged the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists. This included considering significant or unusual movements in valuation and investments in areas of the economy under stress, such as retail. Additional work was completed in this area, including detailed review of a sample of assets by our own valuer. The work of our EY valuation specialist was extended, as set out on the next page, to consider also the material uncertainty disclosed by Wilks Head & Eve in their valuation report to the Council which arose due to Covid-19.<br><br>• Considered the work performed by the Council's valuer (Wilks, Head & Eve), and confirmed that the scope of the work performed is adequate, they had the appropriate professional capabilities to complete the work and the results of their work is in line with our expectations.<br><br>• 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).<br><br>• Confirmed that the 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.<br><br>• Confirmed the valuation was completed on up-to-date information regarding each asset such that any specific changes to assets that have occurred in year had been communicated to the valuer.<br><br>• Assessed those assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.<br><br>• Reviewed and challenged where necessary any changes to useful economic lives as a result of the most recent valuation.<br><br>• Tested the accounting entries posted via journal to ensure they have been correctly processed in the financial statements. |

# Financial Statement Audit - Council (cont'd)

| Audit response (continued) | Conclusion |
| --- | --- |
| Valuation of Land and Buildings/Investment Properties (continued)<br><br>We also undertook the following audit procedures in response to the Covid-19 pandemic:<br><br>• Considered the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions.<br><br>• Ensured the appropriate disclosure was made in the accounts concerning the material uncertainty included in the Wilks Head & Eve report which arose due to the Covid-19 pandemic.<br><br>• Involved EY Real Estates, our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets which we considered more likely to be impacted by Covid-19. Our valuation specialists undertook a detailed review of a sample of assets valued by Wilks Head & Eve to provide assurance over the above points. They also provided assurance and advice to the audit team in respect of the material uncertainty statement included in the Wilks Head & Eve valuation report. | Our specialists, EY Real Estate (EYRE) reviewed a sample of the Council's assets which had been revalued by Wilks Head & Eve. In doing so, EYRE reported judgemental differences in a number of assets.<br><br>One difference was identified relating to the Authority's land and buildings relating to Atheldene, which EYRE concluded was understated by £3.893m. This remains uncorrected.<br><br>Other differences all related to investment properties, specifically 282 Magdalen Road, 70 Queen Street and 32 Old Street, which EYRE believed had been overstated in valuation by a total of £2.848m. These represent differences in opinion between EYRE and the Authority's valuer Wilks Head and Eve, and therefore have not been amended.<br><br>We considered the identified differences within investment properties and projected the valuation differences across other similar assets to produce a projected total difference of £5.86m. These have not been amended in the financial statements.<br><br>We included an Emphasis of Matter within our audit report to draw the attention of the reader of the accounts to the Council's disclosure relating to the material uncertainty. We note this is not a qualification of the audit opinion.<br><br>Accounting for Academy Schools<br><br>We identified one school which had achieved Academy status in year but had not been removed from the Council's Balance Sheet following the loss of control over the assets. This resulted in adjustment of £12.624m to the financial statements. |

# Financial Statement Audit - Council (cont’d)

| Other Risk | Conclusion |
|---|---|
| Disclosures on Going Concern and Events after the Balance Sheet date<br><br>Covid-19: The epidemic has created a number of financial pressures throughout local government, creating financial stress in either, or a combination of, increasing service demand leading to increased expenditure in specific services, and reductions in income sources.<br><br>There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in chief financial officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure. CIPFA’s Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor’s report.<br><br>We are obliged to report on such matters within the section of our audit report ‘Conclusions relating to Going Concern’. To do this, the auditor must review management’s assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor’s report in respect of going concern covers a 12-month period from the date of the audit report, therefore the Council’s assessment will also need to cover this period.<br><br>Events after the balance sheet date: There is increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure will need to reflect the specific circumstances of the Council. | In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we sought a documented and detailed consideration to support management’s assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure.<br><br>We held discussions with the Director of Resources and Deputy Chief Executive to understand how the Council concluded that the use of the going concern assumption was appropriate. Our work included discussion and detailed review of the Council’s updated medium term financial plans and cash flow forecasts, which form the basis of the Council’s consideration of the use of the going concern assumption.<br><br>We reviewed your updated going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. In doing this we considered:<br><br>• The current and developing operating environment.<br><br>• Liquidity (operational and funding).<br><br>• Mitigating factors.<br><br>• Management information and forecasting.<br><br>• Sensitivities and stress testing.<br><br>The draft accounts did not include a detailed disclosure on going concern. Officers used the assessment of the impact of Covid-19 on the Council’s finances to draft a revised going concern disclosure note. We scrutinised the financial assessment, cashflow, liquidity and borrowing forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We reviewed and further challenged the revised going concern disclosure, which appears in Note 1.2 to the accounts, and were satisfied that it is an adequate reflection of management’s assessment that it remained appropriate to prepare the financial statements on a going concern basis. We considered the need to draw the attention of a reader of the accounts to the Council’s updated disclosure through the inclusion of an emphasis of matter paragraph in our audit report, but concluded this was not necessary. |

# Financial Statement Audit - Council (cont'd)

| Other Risk - Conclusion |
| --- |
| Disclosures on Going Concern and Events after the Balance Sheet date (continued)<br><br>We considered whether the Council's disclosures for events after the balance sheet date were appropriate and challenged whether the disclosure in the draft financial statements was required. This resulted in amendment to the disclosure in Note 6: Events after the Balance Sheet date to remove reference to Covid-19 as it was considered an event that occurred prior to the Balance Sheet date. |

# Financial Statement Audit - Council (cont'd)

| Other Risk | Conclusion |
|---|---|
| Pension liability valuation<br><br>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 administered by the Wandsworth Borough Council. 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.<br><br>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. For 2019/20, we also recognise the fact that a full triennial valuation of the fund is being undertaken. | We reviewed the Council's IAS 19 reports which were used to prepare the financial statements and noted they were based upon information submitted to the actuary in February 2020 – including asset valuations. We asked the Council to consider whether there was likely to be a material impact on the IAS 19 report between February and the end of March 2020 and we concluded it was likely. Further developments occurred in respect of consultations in respect of the McCloud ruling and the Goodwin judgement of 30 June 2020. The Council requested revised IAS 19 reports from the actuary, which were provided to the audit team mid-September.<br><br>These reports took into account the impact of the McCloud judgement. The impact of Goodwin is not material. We reviewed these updated reports and were satisfied that they were appropriate and properly reflected in the revised financial statements. We assessed the work of the actuary, including the assumptions they 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.<br><br>We reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. We obtained an IAS19 assurance letter from ourselves (EY) as the auditor of Wandsworth Pension Fund enabling us to conclude our work. We also requested that the EY pension audit team undertook testing on the data submitted to the actuary as part of the triennial review. This testing found no issues to report. |

# Financial Statement Audit - Council (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 | We determined planning materiality for the Council to be £18.345m (2019: £20.059m), which is based on 1.8% of gross revenue expenditure reported in the accounts.<br>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. |
| Reporting threshold | We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.917m (2019: £1m) |

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: These were tested in detail as part of our audit.
- Related party transactions: These were tested in detail as part of our audit.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

# Financial Statement Audit – Pension Fund

| Significant Risk | Conclusion |
|---|---|
| Risk of manipulation of Investment income and valuation<br><br>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.<br><br>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.<br><br>Net return on investments: £188,699,000<br><br>Total net assets of the Fund available: £2,163,736,000 | We:<br>• Tested journals at year-end to ensure there are no unexpected or unusual postings. This included searching for inappropriate journals posted by senior officers, journals with certain narrative descriptions which may allude to override, journals that do not balance to nil and material journals posted at year end. We were satisfied that those journals tested did not contain evidence of management override.<br>• Undertook a review of reconciliations to the fund manager, custodian and valuer reports and investigated any reconciling differences. The work completed in respect of these reconciliations did not identify any evidence of management override and there were no unexplained or unusual reconciling differences.<br>• Re-produced the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers. This was undertaken to ensure the valuation and disclosure of the investments within the reports agreed to the disclosure within the accounts. There were no material differences between the disclosures and no evidence of management override was identified.<br>• Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports. No material differences were identified.<br>• For quoted investment income we agreed the reconciliation between fund managers and custodians back to the source reports. We also tested a sample of quoted investments back to market data to verify the valuations included at the Balance Sheet date. No material differences were identified.<br>• We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries and material estimates for evidence of management bias and evaluated their business rationale. We were satisfied that the journals posted to produce the financial statements did not contain any evidence of management override of control or manipulation of investment income or valuation.<br><br>We have not identified any material weaknesses in controls or evidence of material management override. We have not identified 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. |

# Financial Statement Audit – Pension Fund

| Significant Risk | Conclusion |
| --- | --- |
| Valuation of complex investments<br><br>Misstatements that occur in relation to complex investments valued at 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.<br><br>Significant judgements are taken by investment managers or administrators to value those investments where prices are not publicly available. The material nature of investments means that any error or judgement could result in a material valuation error.<br><br>Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.<br><br>The investments are held on the Net Asset Statement at the following values:<br><br>Infrastructure: £117,363,000<br><br>Private Debt: £60,750,000 | Due to their complexity and the economic uncertainty arising from the Covid-19 pandemic, we utilised the services of an EY securities expert to support our audit procedures and ensure we obtain sufficient audit assurance over these complex balances.<br><br>The audit procedures we completed were as follows:<br>• Our specialist concluded the basis of valuation for the infrastructure and private debt investments and the appropriateness of the valuation methods used were consistent with valuation practice given the characteristics of the net asset values used.<br>• Through the work of our specialist, we confirmed the valuation methodology applied by the fund managers was appropriate; and for all funds, other than Churchill, had been completed by a third party. This provides assurance over the competence of management experts.<br>• We performed analytical procedures and checked the valuation output for reasonableness against our own expectations. These expectations were informed by our own expert, who has specialist knowledge and experience to be able to provide an accurate assessment of the valuation for our audit purposes.<br><br>In completing our work, our specialist considered:<br>(i) the completeness of the material presented to us;<br>(ii) the adequacy and relevance of this material;<br>(iii) the nature and basis for valuation adjustments and calculations;<br>(iv) the reasonableness of the valuation methods and assumptions used in the analysis; and<br>(v) whether our findings support Management's conclusions given the scope of the work performed.<br><br>Our specialist concluded that in preparing the financial statements, the Pension Fund had calculated the valuation of the infrastructure and private debt instruments by taking the fund managers valuation as at 31 December 2019 and adjusting for any calls and distributions between the 31 December 2019 and 31 March 2020. |

# Financial Statement Audit – Pension Fund

## Conclusion

Valuation of complex investments (continued)

This approach was taken as the fund managers 31 March 2020 valuation would not be available until after the financial statements had been prepared. Our specialist compared the valuation used by the Pension Fund to the fund managers valuation as at 31 March 2020 which was subsequently issued. This identified a difference of £2.768m between the two values. This is below our materiality level and was therefore not updated within the financial statements given this is a judgemental difference.

Our specialist noted that all the funds, with the exception of Churchill, had market movements per the fund manager that were plausible given the market data they had observed. The specialist concluded that the Churchill return (per the fund manager) was not in line with their expectations considering movements in the leveraged loan market and the fact they have downgraded much of their portfolio. In response, our specialist undertook a high-level, and indicative, calculation of how the fund value might have moved assuming an applied a market return of -13% (in line with appropriate indices). This created a difference between our specialist's estimate of the value as at 31 March 2020 and the figures used by the Pension Fund of £3.95m. A difference of this magnitude is not material.

In consideration of the factors above, from a valuation perspective, it would have been more appropriate to show the portfolio at the managers' mark than at the December 2019 values. However, the difference between the Pension Fund's estimate of the NAV and the managers' estimate (£2.768m) is not material. All of the funds, with the exception of Churchill, had market movements per the manager that were plausible given the market data we have observed. None of the differences in valuation resulted in material misstatement.

# Financial Statement Audit – Pension Fund

| Other Risk | Conclusion |
|---|---|
| Pooled Property Funds<br><br>Pooled Property Fund Valuations could be impacted as a result of COVID-19. The Royal Institute of Chartered Surveyors (RICS) issued guidance in light of COVID advising the use of a material valuation uncertainty clause due to the uncertainty associated with the market value of property. Upon the receipt of the draft 2019/20 financial statements it was been confirmed that such material valuation uncertainty clauses have been included across all pooled property funds included in the Pension Fund financial statements.<br><br>There is a risk that the pooled property valuation could be materially misstated. Market volatility means judgments made in the valuation process can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.<br><br>The pooled property fund investments are held on the Net Asset Statement at the value of £104.5m. | We completed our audit procedures in respect of these investments. We were able to reconcile the pooled property fund balances to supporting evidence. We also completed the following procedures:<br><br>► Considered the valuation of the unit price of pooled property funds and how they were impacted by any changes in the market valuation of the underlying investments.<br><br>► We reviewed those reports provided by the fund managers in respect of the pooled property funds, noting that due to the pooling arrangement, the basis of valuation of the pooled property funds is not directly linked to the valuation of the unit price reported in the financial statements.<br><br>► We tested the unit price back to supporting third party evidence as at 31 March 2020, to ensure it is within a reasonable expected range for the purposes of the financial statements.<br><br>To address the risks created by COVID-19, specifically in relation to the RICS valuation guidance we also ensured the appropriate disclosure has been made in the accounts concerning the material uncertainty.<br><br>We were satisfied there is no evidence of material misstatement arising in respect of these assets.<br><br>We considered whether our audit opinion should include an emphasis of matter paragraph in this area. The value of pooled property within the financial statements is £104.5 million. For a valuation movement to be material, it would need to be in excess of +/- 20% movement at 31 March 2020. Based on the market data available, this level of movement seems implausible. We therefore concluded that an emphasis of matter is not required. |

# Financial Statement Audit – Pension Fund

| Other Risk | Conclusion |
| --- | --- |
| Disclosures on going concern and events after the balance sheet date<br><br>We have identified a risk to disclosures concerning the Covid-19 pandemic. We consider the risk applies to going concern and post balance sheet disclosures. Considering the financial position of the Pension Fund we do not believe it appropriate to treat this as a significant risk, rather that it should be treated as an area of audit focus in our approach.<br><br>Covid-19 has created a number of financial pressures throughout local government and the wider economy that could directly impact the Pension Fund. There is currently no clear statement of financial support from MHCLG that covers all financial consequences of Covid-19. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.<br><br>We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.<br><br>The auditor's report in respect of going concern covers a 12-month period from the date of the audit report, therefore the Pension Fund's assessment will also need to cover this period.<br><br>Events after the balance sheet:<br><br>There is increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure will need to reflect the specific circumstances of the Pension Fund. | We met the Director of Resources and Deputy Chief Executive on 27 August 2020 to discuss going concern in respect of the Pension Fund. We reviewed the initial going concern disclosures within the financial statements under IAS1, which was relatively limited.<br><br>We received revised financial statement disclosures for the basis of preparation (PF Note 2) from management, including a cashflow forecast to March 2022 in November 2020.<br><br>Wandsworth Pension Fund accounts have been prepared on a going concern basis, and this is clearly supportable based on our review of available supporting evidence.<br><br>The funding position of the Fund is strong: the most recent triennial valuation of the Fund showed it to be 105% funded as at 31 March 2019. The Fund's income typically comes from contributions from scheduled and admitted bodies, plus investment income. Based on the cash flow forecast produced, the Fund is expecting total receipts of £92.473m for the 12 month period from December 2020 through to November 2021. Expenditure, which is typically pension payable and administration/investment fees, is expected to be £93.28m for the same period. This compares to £1.792bn of liquid investments as at 31 March 2020.<br><br>Although investment performance was adversely impacted by Covid-19 in late 2019/20, current available information showed some bounce back in the current year. At the time of our assessment, there was no significant risk of which we are aware of a drop in contributions. The Fund has a positive cash flow over the period to March 2022, with only one month forecasting a negative cash position. We're satisfied that the Fund has sufficient liquid assets to cover this shortfall.<br><br>On the basis of all these considerations, we concluded that the revised disclosures are appropriate and an emphasis of matter was not required in our audit report.<br><br>Events after the balance sheet:<br><br>No events after the reporting date are disclosed in the financial statements at PF Note 6. Given that the advent of Covid-19 was prior to financial year end, we were satisfied this disclosure is reasonable and consistent with our wider understanding of events in the new financial year which do not require disclosure. |

# Financial Statement Audit – Pension Fund

## 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 | We determined planning materiality for the Pension Fund to be £21.6m (2019: £23.9m), which is based on 1% of Net Assets reported in the accounts.<br><br>We consider the value of Net Assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. |
| Reporting threshold | We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.081m (2019: £1.2m) |

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:

- Related party transactions: These were tested in detail as part of our audit.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

# Value for Money

# 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.

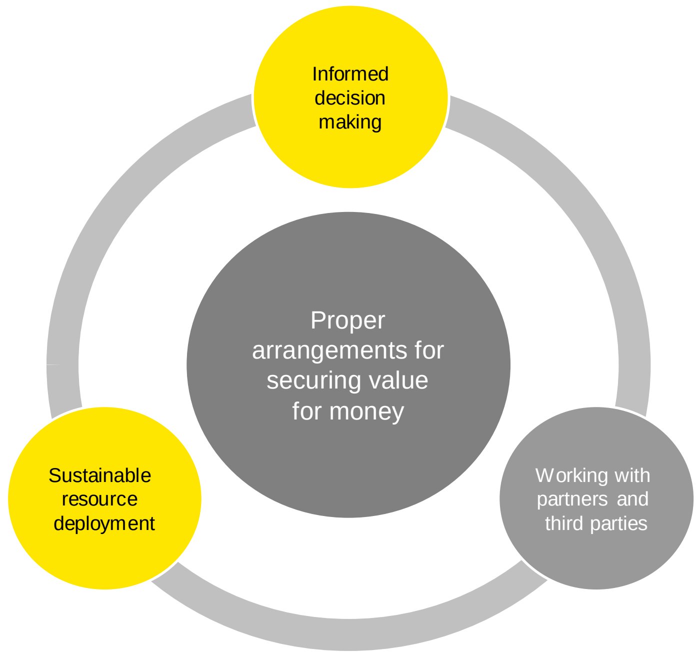
On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies’ response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor’s attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 Value for Money arrangements conclusion.

We did not identify any significant risks around these arrangements.

No further risks were identified during the course of our audit. This included thorough consideration of the impact of Covid-19.

We had no matters to report about the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore issued an unqualified value for money conclusion on 8 February 2021.



Section 5

# Other Reporting Issues

# Other Reporting Issues

## Whole of Government Accounts

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

Our work in this area is nearing completion.

## 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 2019/20 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.

# Other Reporting Issues (cont'd)

## Independence

We communicated our assessment of independence in our Audit Results Reports to the Joint Pensions Committee on 16 September 2020, to the Audit Committee on 11 November 2020 and in our final Audit Results Report issued on 8 February 2021. 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 have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee or Joint Pensions Committee.

Section 6

# 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 | It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2022/23 financial year, following a recent further deferral announced in December 2020. | Whilst the adoption of IFRS 16 has been deferred for a further year, we encourage the Council to use that time to undertake a detailed exercise to identify all of its leases during 2021/22 and capture the relevant information for them. The Council must ensure that all lease arrangements are fully documented. |

Appendix A

# Audit Fees

# Audit Fees - Council

Our fee for 2019/20 is set out in the table below.

| Description | Final Fee 2019/20<br>£ | Planned Fee 2019/20<br>£ | Scale Fee 2019/20<br>£ | Final Fee 2018/19<br>£ |
|---|---|---|---|---|
| Scale Fee | 86,559 | 86,559 | 86,559 | 86,559 |
| Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 38) | 61,162 | | | N/A |
| Revised Proposed Scale Fee | 147,721 | | | 86,559 |
| Covid 19 – Going Concern and consultation (1) | 6,998 | - | - | N/A |
| Covid 19 – increased property valuation risk (1) | 17,130 | - | - | N/A |
| Other (1) :<br>• CIES Restatement | <br>513 | - | - | N/A |
| Total Scale Fee Variation | 24,641 | - | - | - |
| Total Audit Fee | 172,362 | 86,559 | 86,559 | 86,559 |

Note 1 - Please see next page for further explanation of these items.

# Audit Fees (cont'd)

An additional scale fee of £24,128 has been applied to the planned fee based on the following items:

- The identification of Going Concern as an additional risk due to Covid-19 resulted in additional work including discussions, review/challenge of documents and cash flow forecasts, and consideration of proposed disclosure. This additional time has been recorded at £5,018. An additional cost of £1,980 has also been charged as we were required to consult with our professional practise department over the going concern disclosure in the accounts, and over the material uncertainty disclosed with regard to PPE and investment property valuations (see also next point).
- The identification of the Valuation of Land and Buildings/Investment Properties as a significant risk, and increased focus on valuations more generally, resulted in additional work, notably larger sample sizes to be tested. We also engaged our internal valuations specialists, EY Real Estates, to test a sample of 17 assets to assist in addressing the significant risk. The additional cost is £17,130.
- Additional work was required in relation to a restatement of the CIES/EFA to reflect the revised portfolio structure within the Council. Additional fees of £513 have been charged for this work.

These items are not included within the PSAA scale fee and will be subject to agreement with the Director of Resources and then PSAA where appropriate.

# Audit Fees – Pension Fund

Our fee for 2019/20 is set out in the table below.

| Description | Final Fee 2019/20 £ | Planned Fee 2019/20 £ | Scale Fee 2019/20 £ | Final Fee 2018/19 £ |
|---|---|---|---|---|
| Scale Fee | 21,175 | 21,175 | 21,175 | 21,175 |
| Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 38) | 39,325 | - | - | N/A |
| Revised Proposed Scale Fee | 60,500 | 21,175 | 21,175 | 21,175 |
| Covid 19 – Going Concern and consultation (1) | 4,496 | - | - | N/A |
| Level 3 Assets – additional procedures completed by EY specialists (1) | 4,528 | - | - | N/A |
| Other (2) : | | - | - | N/A |
| • 2019 Triennial Valuation of the Fund | 1,493 | - | | |
| • Work for Scheduled & Admitted bodies | 1,484 | 5,500 | | |
| Total Scale Fee Variation | 12,001 | 5,500 | - | - |
| Total Audit Fee | 72,501 | 26,675 | 21,175 | 21,175 |

Note 1 - Please see next page for further explanation of these items.

# Audit Fees (cont’d)

An additional scale fee of £24,128 has been applied to the planned fee based on the following items:

Note 1

- The identification of Going Concern as an additional risk due to Covid-19 resulted in additional work including discussions, review/challenge of documents and cash flow forecasts, and consideration of proposed disclosure. This additional time has been recorded at £3,044. An additional cost of £1,452 has also been charged as we were required to consult with our professional practice department over the going concern disclosure in the accounts, and over the material uncertainty disclosed with regard to PPE and investment property valuations (see also next point).
- The identification of the Valuation of the Funds Level 3 assets as a significant risk, and increased focus on valuations more generally, resulted in additional work, notably the use of an EY expert to undertake a suite of procedures to obtain the required assurances over the valuation of the assets. The additional cost is £4,528.

These items are not included within the PSAA scale fee and are subject to agreement with the Director of Resources and then PSAA where appropriate.

Note 2

- Additional work was also undertaken in relation to the 2019 Triennial Valuation of the Fund. This involved testing a sample of the data sent to the actuary to feed into the triennial valuation and reporting results to scheduled and admitted bodies. The cost of this work was £1,500.
- We completed a programme of work and issued a letter to the Grant Thornton to aid their audit of the IAS 19 pension figures within the Achieving for Children financial statements, as one of the funds scheduled and admitted bodies. We also issued a letter to ourselves as auditors of the London Borough of Richmond-upon-Thames. We estimated the cost of work on behalf of scheduled and admitted bodies to total £5,500 in our audit plan. However, fewer requests were received than expected, resulted in a lower audit fee of £1,500.

These items are not included within the PSAA scale fee, and not subject to their approval process. These are subject to agreement with the Director of Resources.

# Audit Fees continued

## Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and the Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees (PSAA fee consultation), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond (Redmond Review) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management on 28 May 2020. This discussion was delayed due to the Covid-19 pandemic.

We did not reach agreement. While management recognised many of these pressures and can see how they are reflected in the changes in the audit work, their view was that this is a decision for PSAA.

Having not reached agreement, and in light of management's comments, we will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us.

## EY | Assurance | Tax | Transactions | Advisory

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ED None

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