



Wandsworth Borough Council

Auditor's Annual Report
Year ended 31 March 2022

May 2024



EY

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Wandsworth Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Wandsworth Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Wandsworth Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

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: Key conclusions from our 2021/22 audit

Area of work	Conclusion
Opinion on the Council's:	
Financial statements	We issued an unqualified opinion on 20 March 2024 – the financial statements give a true and fair view of the financial position of the Council and group as at 31 March 2022 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
Going concern	We concluded that the Executive Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Statement of Accounts 2021/22 and other information published with the financial statements	We concluded that financial information in the Statement of Accounts 2021/22 and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We concluded that we are satisfied that the Annual Governance Statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We have had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2021/22 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We reported our initial detailed findings in our Audit Results Report dated 15 March 2023 and issued an updated and final Audit Results Report on 20 March 2024.
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 2020 Code of Audit Practice.	We have performed those procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22 and issued our audit certificate on 20 March 2024.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. We have submitted a Scale Fee Variation of £115,286 for the Council and £55,982 for the Pension Fund to the PSAA for consideration and determination. Further detail is included within Appendix A.

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

Janet Dawson
Partner
For and on behalf of Ernst & Young LLP
May 2024

Section 2

Purpose and responsibilities



Purpose and responsibilities

This report summarises our audit work on the 2021/22 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Outline Audit Plan that we issued in March 2022 and the updated Audit Plan we issued in August 2022. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, and governance statement. It 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 – Wandsworth Borough Council

Key issues

We issued an unqualified audit opinion on the Council and group's 2021/22 financial statements.

The Annual Report and 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 issued an unqualified opinion on the financial statements on 20 March 2024. We reported our initial detailed findings in our Audit Results Report dated 15 March 2023 and issued an updated and final Audit Results Report on 20 March 2024. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p>Misstatements due to fraud or error</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error. 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.</p>	<p>We did not identify any:</p> <ul style="list-style-type: none">• material weaknesses in controls or evidence of material management override;• instances of inappropriate judgements being applied; or• any other transactions during our audit which appear unusual or outside the Council's normal course of business.
<p>Risk of fraud in revenue and expenditure recognition through inappropriate 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 believe the risk of manipulation is most likely to manifest in the incorrect capitalisation of revenue expenditure through either inappropriate additions to Property, Plant and Equipment (PPE) or incorrect classification of expenditure as Revenue Expenditure Funded from Capital Under Statute (REFCUS), as there is an incentive to reduce expenditure which is funded from Council Tax.</p> <p>Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.</p>	<p>We found no evidence of incorrect capitalisation of revenue expenditure in the Property, Plant and Equipment additions balance or the REFCUS balance within the financial statements.</p> <p>We are satisfied that the transactions tested were supported by evidence which confirmed the valuation, nature of the expenditure, period to which it related to and confirmed that it was correctly classified.</p>

Financial Statement Audit – Wandsworth Borough Council (continued)

Significant Risk	Conclusion
<p>Valuation of land and buildings - valued under Existing Use Value (EUUV) / Fair Value (FV)</p> <p>The valuation of land and buildings valued on an EUUV/FV basis 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.</p>	<p>We found no evidence of material misstatement with the Council's valuations of land and buildings valued on an EUV / FV basis.</p>
<p>Valuation of Investment Property - valued under Fair Value (FV)</p> <p>The valuation of 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.</p>	<p>We employed the use of our own expert to test the valuation of a small number of investment properties, focusing on those where we have previously had differences arise. For 2021/22, no differences in valuation were identified. A number of investment properties were tested by the local audit team. No evidence of material misstatement was identified.</p>

Financial Statement Audit – Wandsworth Borough Council (continued)

Other area of audit focus	Conclusion
<p>Valuation of land and buildings in PPE under Depreciated Replacement Cost (DRC)</p> <p>The value of land and buildings in PPE under DRC represent significant balances in the Council’s accounts and are subject to valuation changes and impairment reviews. Management is required to make a lesser degree of material judgemental inputs and apply estimation techniques which are required to calculate these balances held in the balance sheet. Although there is a risk for land and buildings under DRC to be misstated due to the specialised nature of these assets and insufficient availability of market-based evidence to assist the valuation, these assets are inherently not subject to material uncertainty arising due to market conditions.</p>	<p>No material audit differences have been identified from our work. We are satisfied that assets valued on a DRC basis are not materially misstated.</p>
<p>Valuation of Housing Revenue Account (HRA) properties</p> <p>The value of HRA properties represents a significant balance in the Council’s accounts and are subject to valuation changes and impairment reviews. Management is required to make a lesser degree of material judgmental inputs and apply estimation techniques which are required to calculate these balances held in the balance sheet and HRA notes. HRA properties are inherently not subject to material uncertainty arising due to market conditions.</p>	<p>We identified a difference of £24m where the Council’s financial statements had overstated the value of the Council Dwellings as the valuation provided by their external valuation specialist had not been properly included within the financial statements.</p> <p>Following amendment of this misstatement, we are satisfied the valuation of the Councils HRA properties is not materially misstated.</p>
<p>Infrastructure Assets</p> <p>In March 2022, an issue was raised with the National Audit Office’s Local Government technical network in relation to the accounting for infrastructure assets. Under the CIPFA Code of Local Authority Accounting, these assets are held at depreciated historic cost.</p> <p>Following more detailed consideration by auditors this year, it has been identified that whilst local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component.</p>	<p>In response, CIPFA has issued an adaptation to the Code of Practice on Local Authority Accounting to allow reporting on a net basis for infrastructure assets, and DLUHC have issued a Statutory Instrument (SI) (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022). Finally, a CIPFA LAAP bulletin was issued on 11 January 2023 to provide further guidance to affected local authorities.</p> <p>Management prepared a paper in January 2023 in response to this guidance, following which, we are satisfied the Council has appropriately accounted for infrastructure assets in accordance with the CIPFA adaption to the Code of Practice on Local Authority Accounting.</p>

Financial Statement Audit – Wandsworth Borough Council (continued)

Other area of audit focus	Conclusion
<p>Infrastructure Assets (contd.)</p> <p>As a consequence gross cost/gross accumulation is therefore continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated.</p>	
<p>Pension Liability Valuation</p> <p>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 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.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council. 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>We were satisfied there was no evidence of material misstatement arising in respect of the Councils Pension Liability valuation.</p> <p>We have identified one unadjusted audit difference, which relates to the Wandsworth Borough Council's share of Level 3 assets reported by the Wandsworth Pension Fund. This totalled £3.2 million.</p> <p>A triennial review of the Wandsworth Pension Fund was undertaken as of March 2022 with reporting released in March 2023. This triennial review resulted in a revised IAS19 report being issued as at 31 March 2022. Management updated the financial statements to reflect this revised IAS 19 report. We are satisfied the report has been appropriately reflected in the revised financial statements.</p> <p>We are satisfied the pension liability valuation is not materially misstated.</p>
<p>Going concern Disclosure</p> <p>There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces.</p> <p>In light of the continued impact of Covid-19 during 2021/22, there is a need for the Council to ensure its going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive.</p> <p>The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p>	<p>We completed our work relating to going concern and were satisfied the use of the going concern assumption remains appropriate for the Council, and that it has access to sufficient working capital to support its operations for a period of at least 12 months from the date of our audit report.</p>

Continued over.

Financial Statement Audit – Wandsworth Borough Council (continued)

Other area of audit focus	Conclusion
<p>Revenue Expenditure Funded from Capital Under Statute (REFCUS)</p> <p>In 2020/21, we sample tested the REFCUS balance of £37.1m disclosed within the Council's accounts based on the unaudited financial statements. We identified a number of the items tested within our sample had been incorrectly recorded as REFCUS and reported an extrapolated audit difference.</p> <p>The most common reason for these errors is that the Council has recognised expenditure incurred in REFCUS for those assets which are currently owned by the Council which is against the basic principle of REFCUS recognition.</p> <p>Given the volume and value of the errors identified in the prior year, we undertook specific substantive procedures to verify the classification and value of those items recorded as REFCUS for 2021/22.</p>	<p>We are satisfied that the Council's treatment of REFCUS was not materially misstated, and had been recognised in the financial statements in accordance with the CIPFA Code.</p> <p>This was an area which was highlighted as containing a high volume of errors in our prior year Audit Results Report and was identified as a separate area of audit focus as a result. This therefore, represents an area of improvement within the Council.</p>
<p>Community Infrastructure Levy (CIL) Debtors</p> <p>As part of our debtors testing for the 2020/21 audit, we identified a difference between the Council's unaudited financial statements, which recorded CIL debtors of £23.7m, and the supporting working paper which suggested the balance is £28m.</p> <p>The Council's listing of CIL debtors therefore did not reconcile to the ledger or accounts, with a difference of £4.24m.</p> <p>Management has spent a significant amount of time investigating this, but while the Council is confident that the figure in the ledger and accounts is correct, sufficient audit evidence did not exist to support this.</p> <p>As the reason for this variance is that the Council is maintaining the spreadsheet rather than making invoice-level adjustments directly on the ledger, we asked the Council to prepare a working paper that properly sets out the CIL debtor position and reconciles to the ledger, to allow us to undertake detailed substantive testing of the balance.</p>	<p>Our testing of the Council's Community Infrastructure Levy (CIL) debtors identified the balance was overstated by £8.97m as the financial statements included an item which had been reversed by a credit note prior to year end. This was adjusted in the updated financial statements.</p>

Continued over.

Financial Statement Audit – Wandsworth Borough Council (continued)

Audit differences

We identified a number of errors and misstatements in disclosures which management corrected. In addition to those included above, we also identified misstatements relating to the Councils accounting for Section 106 balances.

In preparing the 2021/22 financial statements, officers proposed a prior year adjustment relating to the 2020/21 financial statements relating to the accounting for Section 106 agreements. As we had not been able to issue our Audit Report in respect of the 2020/21 year, rather than a prior year restatement, we requested management make changes to the 2020/21 financial statements before they are signed by the Council, and before we issue our Audit Report. This work resulted in an update to the opening balances within the Council's 2021/22 financial statements as reported in our Audit Results Report for 2020/21, issued in October 2023. Subsequently, adjustment to the 2021/22 balances was as follows:

- An increase to the Section 106 Earmarked Reserve of £60.4m
- An increase to the Capital Grants Unapplied Reserve of £4.68m.
- A decrease in Grants Receipts in Advance – Revenue (current liabilities) of £22.4m
- A decrease in Grants Receipts in Advance – Capital (current liabilities) of £2.56m
- A decrease in Grants Receipts in Advance – Revenue (non-current liabilities) of £35.31m
- A decrease in Grants Receipts in Advance – Capital (non-current liabilities) of £4.8m.

The following errors were identified which were not adjusted within the accounts:

- Overstatement of Income and Expenditure by £6.3m due to incorrect accounting treatment of internal recharges;
- Overstatement of debtors balance by £6.5m due to incorrect inclusion of an item reversed by a credit note;
- Unaccrued creditors totalling £4.9m identified through cut-off testing; and,
- Over accrued creditors totalling £1.65m relating to Goods Received not Invoiced.

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 to be £9.55m as 1.8% of gross revenue expenditure reported in the accounts. 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 £0.95m.

Financial Statement Audit – Wandsworth Pension Fund

Key issues

We issued an unqualified audit opinion on the Pension Fund's group's 2021/22 financial statements.

We issued an unqualified opinion on the Pension Fund financial statements on 20 March 2024. We reported our initial detailed findings in our Audit Results Report dated 7 September 2022 and issued an updated and final Audit Results Report on 20 March 2024. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk

Risk of manipulation of Investment income and valuation [Management Override]

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.

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.

Valuation of complex investments

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 in the Net Assets Statement and investment income in the Fund Accounts.

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.

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.

Conclusion

We did not identify any material weaknesses in controls or evidence of material management override.

We did not identify 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.

Our audit procedures allowed us to conclude that the valuation of the Fund's complex investments was not materially misstated as at 31 March 2022.

Two immaterial uncorrected differences related to the valuation of complex investments are included on page 16.

Financial Statement Audit – Wandsworth Borough Pension Fund (continued)

Other area of audit focus	Conclusion
<p>Going concern disclosures</p> <p>There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. There is a need for the Fund to ensure it's going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.</p> <p>The Fund is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p>	<p>We were satisfied that the Fund's use of the going concern assumption and associated disclosure are appropriate.</p>
<p>IAS 26 Disclosures</p> <p>We consider the valuation of IAS 26 to have a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables. Whilst the IAS 26 disclosures do not inform the primary statements, there is stakeholder interest in this disclosure due to it's nature.</p>	<p>The Pension Fund received an updated Triennial Valuation as at 31 March 2022 which was available in Spring 2023. We have therefore ensured that the financial statements have been properly updated to reflect the later Triennial valuation.</p> <p>We were satisfied the IAS 26 disclosures are not materially misstated.</p>

Financial Statement Audit – Wandsworth Pension Fund (continued)

Audit differences

We identified a small number of errors and misstatements in disclosures which management corrected.

The following errors were identified and have not been adjusted within the accounts:

- Valuation of Level 3 Investment – Pooled Infrastructure Assets: We identified a factual difference between the fund managers valuation statement as at 31 December 2021 (included in financial statements) and updated valuation as at 31 March 2022, totalling £3.267m.
- Valuation of Level 3 Investment – Pooled Private Debt: We identified a factual difference between the fund managers valuation statement as at 31 December 2021 (included in financial statements) and updated valuation as at 31 March 2022, totalling £1.691m

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 to be £28.756m as 1% of the Funds 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 Council.
Reporting threshold	We agreed with the Audit Committee and Joint Pensions Committee that we would report to the Committee all audit differences in excess of £1.437m.

Section 4

Value for Money



Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment in the detailed audit plan issued in August 2022. This was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work on 20 March 2024 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in our audit report.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability
How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance
How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness:
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability

How the body ensures that it identifies all significant financial pressures that are relevant to its short term and medium-term plans and builds these into them

The Council sets a balanced revenue budget annually. The budget supports delivery of the Council's key priorities. The budget is therefore used to ensure financial resources are aligned to areas where the Council believes it will secure the greatest benefit to residents of the Borough. The Council's Finance Committee maintains and provides oversight over the financial performance of the Council. They also identify and evaluate any changes in financial performance related risks. The Committee reports to the Executive Committee any matters that warrant wider discussion, and decisions made. This includes discussion of budget setting and actual vs budget throughout the period. It reviews the Council Tax income proposals and the annual, short and medium term budgets.

The annual budget is then linked to the medium-term aspirations of the Council through its medium-term financial strategy (MTFS), which considers a three year forward view, and its capital programme which extends forward for 5 years.

The MTFS is a collaborative document prepared by the Council's various departments at a granular level to produce a detailed first year budget. The summary of this is then adjusted for known/significant year on year changes as agreed with the core finance team, prior to review by senior officers and the Finance Committee.

Council members are fully engaged in this process, including a briefing on the MTFS including options for managing pressures and savings. The budget considers known and expected demand and cost pressures and known and expected changes in funding.

Financial sustainability (continued)

The wider financial environment has become increasingly challenging for local government in recent years and the Council has needed to operate against a backdrop of reduced funding from traditional sources and increased demand for services. This has meant that difficult choices have needed to be made and rises in council tax have been necessary. In making these choices the Council seeks to focus on the areas it believes will make the biggest difference to people in the Borough.

The Council seeks to take decisions about savings decisions as early as possible, providing as much notice as possible to those affected and maximising the prospect for savings delivery.

General Fund revenue approved budgets for 2021/22 were underspent by a net total of £19.467 million before known slippage is taken into account. All costs and lost income incurred during 2021/22 due to Covid-19 have been covered by grant received in-year of £32.075 million. The grant received exceeded the spend incurred by £2.038 million which has been transferred into the Covid-19 reserve to be drawn from in future years to fund the ongoing impact of the pandemic.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The closing financial position of the Council has also improved. Overall, the Council's General Fund Reserve has increased by £0.7m to £16.221m, whilst a contribution of £19.8 million was made to the Financial Resilience Reserve to enable the Council to mitigate the risk of further costs of Covid-19.

These reserves are being held as significant budget gaps remain in the Medium Term Financial Strategy published in September 2021. Although the budget gap was closed for 2021/22, there was a cumulative budget gap of £30.253m reported over the course of the Medium Term Financial Strategy.

How the body plans to bridge its funding gaps and identifies achievable savings

The Council regularly reports on financial performance and planning to the Council's Finance Committee which enables the Council to identify gaps in funding and monitor progress on meeting budget and savings targets. The Council brings its annual budget plans to this Committee for challenge and scrutiny before reporting to the Executive Committee.

The MTFS issued in September 2021 stated the Council was able to report a balanced budget for 2021/22 but with a remaining cumulative budget gap of £30.253m to the 2024/25 financial year. This forecast will need to be reduced further by increasing Council Tax revenue, through a savings programme identified by the Council or through use of reserves. The identification of a robust programme of savings to bridge funding gaps while minimising the adverse impact on residents therefore remains a possible measure for managing the annual budget setting and medium-term financial planning.

Financial sustainability (continued)

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The annual budget and MTFS sit alongside and facilitate the Council's annual Corporate Business Plan. The Council Plan has been developed collaboratively with elected members, staff, partners and residents to prioritise the most important areas the Council needs to focus on in the future. This is done for the Council's limited resources to be spent on the areas where it is needed most. It has been developed in parallel with the budget for 2021/22. As it is aligned to the budget and MTFS, it is intended to act as the framework in which investment decisions can be made based on agreed priorities and the outcomes the Council wants to achieve.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The process of defining the Corporate Business Plan has been designed with the intention of bringing together annual financial and service planning and robust performance management. It is intended to provide the framework for the Council's decision making and planning to ensure that it is making the best use of the resources available, properly understanding the value for money delivered and at the same time remaining focused on the delivery of priority outcomes.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The integration between the Council's business and financial planning has been described above, and includes a link to its capital strategy and capital programme. The development of the annual budget and MTFS, and detailed assumptions on the operations of the Council that underpin them, is now being driven by its vision of the future as set out in the Corporate Business Plan, which is also then linked to the key governance and control arrangements of the Council, for example its performance and risk management arrangements. The Council reporting to the Finance Committee covers key areas such as workforce, capital, investment, and operation planning in order to ensure alignment across these areas and the Council's finances. The Council's financial plans include reporting on these wider areas as part of the Council's mechanisms for monitoring the achievement of targets for each of the key performance areas. Oversight of these areas is demonstrated through the Council's Executive meetings, and members of both Committees sit on various other Council Committees in order to ensure shared knowledge and alignment of practices and expectations.

This has shown that the Council is able to react and work effectively as part of wider system of public services.

Financial sustainability (continued)

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

The Council's arrangements for identifying its significant financial pressures as part of its annual budgeting and medium-term financial planning have already been considered as part of this commentary. Performance against those plans is monitored in the quarterly reporting to the Finance Committee which provides an integrated assessment of the Council's business and financial performance. This integrated monitoring enables the Council to detect unplanned changes to its service activities and operations with potential to impact its financial resilience on an ongoing basis so they can be considered in its continuous budget planning. Its risk and performance management arrangements, which are considered further below as part of this commentary, also feed into this. The corporate planning process has been designed with the intention of further integrating business planning, financial planning and risk management processes.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Council also seeks to maintain an adequate level of usable reserves, which it has been able to increase during 2021/22. This provides contingency for unexpected changes and sustains financial resilience. Reasonable general and pay-specific contingencies are built into the annual revenue budget and the financial resilience reserve is used to provide a stable platform for service planning as the MTFs is developed. It is intended to be the first call on the Council resources to deal with any unforeseen in year expenditure if the revenue budget were to be exhausted.

Governance

How the body monitors and assessed risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Heads of Service are responsible for implementing the management of risk throughout the Council. Heads of Service throughout the Council are responsible for managing specific areas of risk that apply in their specific businesses and are to be aligned with business planning.

The Council maintains a risk register on their website called the Borough Risk Register. This contains non-operational based risks such as accidents, disease, industrial action, natural hazards, etc. and therefore is not updated regularly.

Rather than having a single risk register for operational risks, the Council instead identifies financial risks within the Medium Term Financial Strategy. The Medium Term Financial Strategy for 2021/22 was presented to the Finance Committee in September 2021.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The risks assessed are wider than just financial, due to the nature of the Council's activities. The Council assesses impact of risks on a matrix of likelihood and occurrence, with a combined score produced to assess the importance of the risk. The Council has a risk appetite statement that defines acceptable levels of risk for its activities.

The Council has an internal audit service to help gain assurance over the effective operation of internal controls. The Audit Committee is responsible for ensuring that Internal Audit's programme of work considers the Council's risks. The Executive Director of Finance is responsible for the adequate provision of internal audit. The Council's management is responsible for responding to the internal audit findings appropriately and in a timely manner with appropriate challenge from the Audit Committee.

The annual Internal Audit Plan incorporates an appropriate level of coverage in respect of the Council's system of internal control. Where deficiencies in governance arrangements are identified they are reported in the Council's Annual Governance Statement (AGS). This includes concerns raised by external inspectorates, external audit and any limited assurance audit reports which are issued by Internal Audit.

Minimising any losses to fraud and corruption is an essential part of ensuring that all of the Council's resources are used for the purposes for which they are intended. To facilitate this the Council has a Whistleblowing Policy which is designed to offer a route for raising concerns and is entirely confidential. This is overseen by the Audit Committee.

Governance (continued)

How the body approaches and carries out its annual budget setting process

The Council sets a balanced revenue budget annually. We have considered the linkage between the annual budget and the MTFS in the section of this VFM commentary which considers how the Council identifies all significant financial pressures that are relevant to its short term and medium-term plans.

Responsibilities and procedures for the annual budget process are set out in the Council's Constitution. Once a budget or a policy framework is in place, it is the responsibility of the relevant Committee to implement it and work within it. The Committees must also have regard to other formally adopted plans and strategies of the Council. The responsibility for agreeing the budget and policy framework lies with the Council, and decisions by Committees, officers, or joint arrangements discharging functions of the Council must be in line with it.

The Executive Director of Finance is responsible for ensuring that an overall revenue budget and capital programme summarising service budget estimates is prepared on an annual basis.

The Council develops its financial plan and budget using dual processes:

- Top down: where the Council quantifies the core financial gap to assess the Council's affordability envelope and inform the scale of the required increase in Council Tax. This is developed through the application of national and local planning assumptions, as well as known commitments.
- Bottom up: where the Council develops a granular level of activity, income, expenditure, workforce and capacity. The Council then triangulates these plans with operational, performance and workforce leads.

The financial plan is reviewed by the Finance Committee before being presented to the Executive.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The Council relies upon monthly financial closedowns which are used to monitor budgetary performance within service lines. On a quarterly basis, this information is collated by the central finance team and then reported to the Finance Committee as part of the quarterly financial planning and budgetary update. This also identifies variances from budget and the reasons for these variances, and allows the Council to take action where necessary. It also ensures there is appropriate oversight of the budgetary performance throughout the financial year.

The data is compiled directly from the Council's general ledger and therefore the systems and internal control environment, which is reviewed and assessed each year by Internal Audit, forms the basis of this data and ensures it is relevant, accurate and timely.

Financial reporting requirements are only considered at year end, when the financial statements are produced. The Council's reporting to Finance Committee is based upon service lines rather than on the financial statement basis.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

The effective operation of the Finance Committee, supported with regular, clear and relevant information, is the Council's key tool for ensuring that it makes properly informed decisions on financial matters.

Similar committees exist for other key areas of the Council. Published papers and minutes evidence the challenge made by members and the transparency in decision making.

The Council committee structure continues to operate, with papers and meetings published on line. The Council continued to prepare a Forward Plan, available on its website. The Forward Plan sets out the 'key decisions' which are proposed to be made on behalf of the local authority over the months ahead and is updated monthly.

Governance (continued)

The plan outlines the key decisions being made across the Council, in all service lines and includes the date of the decision and the Committee, allowing residents to seek out supporting papers and attend the Committee at which the decision is made to voice their support or concerns. Each of the Finance Committee and Audit Committee regularly throughout the year, with the Council's Executive meeting several times a year. The Finance Committee is comprised of 12 members, and the Audit Committee is comprised of 7 members. There are clear terms of reference that emphasise the Committee's role in providing effective challenge and has an annual work plan to help ensure that it focuses on the relevant aspects of governance, internal control and financial reporting.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The responsibilities and statutory requirements of all officers and members is embedded in the Council's Code of Corporate Governance (the Code) and Constitution. The underlying principles of the Code are derived from a series of important reports on governance including the Nolan Committee Report on Standards in Public Life and cover openness, inclusivity, integrity and accountability. All significant actions by the Council which may have legal implications either require authorisation by the appropriate Executive Director as set out in the Council's decision-making rules. Decision makers are also required to act within the Council's Standing Orders and scheme of delegation which makes provision for legal and constitutional advice to inform such decisions.

The Council's Constitution contains a number of check points at which officers are able to identify whether decisions are being taken in compliance with the prescribed rules which ensure legal compliance. All executive decisions and policy proposals are considered and advised on by legal officers with access to all current legal provisions and guidance and who use a knowledge and research resource which updates all legislation and sources of advice automatically and provides alerts for significant changes in the law. The Council's legal services undertake regular reviews of current and expected legislative changes and maintain plans for training officers within the service and for providing relevant information to lead officers in the areas of service affected. Actions or changes resulting are supported by internal legal advice.

Governance (continued)

There is an established Code of Conduct contained in the Council's Constitution with which all members are expected to comply. The Council has also adopted policies relating to responsibilities for ethical behaviour including equality and sustainability. Decision-making is supported by advice from officers and internal guidance that should ensure compliance with these policies. The codes of conduct define the standards of behaviour for members and officers. All members undertake training from the Monitoring Officer on the member code of conduct. All members complete the register of interests, and the need to disclose interests is a standing item on all formal meeting agendas for both officers and members. Officer interests, including gifts and hospitality, should be published on the Council's website annually.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement

The quarterly reporting of financial performance to the Finance Committee and operational performance reports to the service line overview and scrutiny committees and clearly outline performance against planned targets and outcomes. Depending on the performance area, the Council's Executive meeting will have oversight of the actions being identified and taken to address areas where performance is below plan. Each committee has a process in place for monitoring agreed actions and these are then included in subsequent reports.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The Council has an array of ways of measuring its own performance across all aspects of its operations. Each of these varies depending on the services being provided but are typically overseen by a specific committee applicable to each service line.

Some key performance areas, such as schools or social care are also reviewed by external agencies such as OFSTED or the CQC and provide detailed reporting on the performance of the Council's arrangements and performance in relevant areas. These external inspections are considered seriously and include recommendations for improvements and details of failings which the Council reviews and prepare action plans to respond to.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council works with a variety of stakeholders. These include a joint venture related to housing developments, and the London Borough of Richmond Upon Thames with whom the Council has a shared staffing arrangement.

Where relevant within a contract, a specific individual is responsible for the management and monitoring of these partnerships and review the KPI's. Regular reporting on performance is made throughout the period to confirm that performance is in line with contracted arrangements. These are then taken to relevant committees throughout the year to provide high-level oversight, ensure visibility and to recommend actions be taken where necessary. Follow-up actions are then monitored through the same process.

Improving economy, efficiency and effectiveness (continued)

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Constitution and Standing Orders states that the Council will ensure compliance with its own Procurement Regulations from 2016, changes to which must be approved by Council's Executive. The procurement strategy states that the Council must award all contracts under the Public Contracts Regulations of 2015 and should be in line with EU procurement standards.

There is sufficient oversight to ensure there is compliance over the procurement or commissioned of services, through effective authorisation levels as set out in the Standing Orders from designated budget holders to the oversight committees. As noted above, the Council has a procurement strategy to align the Council's procedures with the relevant legislative and professional standards to ensure that all commissioned and procured services is done in accordance with the relevant legislation and professional standards.

Those procuring services are responsible for reviewing all procurement processes and awarding contracts only where compliance with relevant legislation, professional standards and internal policies are met. Breaches would be reported to oversight committees and the Audit Committee.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.



Section 5

Other Reporting Issues

Other Reporting Issues

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 complies with relevant guidance.

We completed this work and were satisfied that the disclosure was consistent with other information and complied with relevant guidance.

Whole of Government Accounts

We have performed those procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22 and issued our audit certificate on 20 March 2024.

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.

Other powers and duties

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

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

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

Appendix A – Fees: Wandsworth Borough Council

We carried out our audit of the Council financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks and areas of audit focus in relation to:

- Significant risk: Risk of fraud in revenue and expenditure recognition through Inappropriate capitalisation of revenue expenditure;
- Significant risk: Valuation of land and buildings - valued under Existing Use Value (EUV) / Fair Value (FV);
- Significant risk: Valuation of Investment Property - valued under Fair Value (FV);
- Area of audit focus: Valuation of land and buildings in PPE under Depreciated Replacement Cost (DRC);
- Area of audit focus: Valuation of Housing Revenue Account (HRA) properties;
- Area of audit focus: Infrastructure Assets;
- Area of audit focus: Pension Liability Valuation;
- Area of audit focus: Going concern Disclosure;
- Area of audit focus: Revenue Expenditure Funded from Capital Under Statute (REFCUS); and,
- Area of audit focus: Community Infrastructure Levy (CIL) Debtors.

As a result, we have requested an additional fee which remains subject to approval by PSAA Ltd. This is outlined in the table below and reflects the additional time required to complete the engagement not only in order to respond to the above risks, but also:

- Additional work in relation to the valuation of the LG Pension Fund arising from the 2022 Triennial Valuation;
- Additional time and work in respect of technical accounting issues and quality & preparation issues in the financial statements and working papers;
- Drafting our VFM commentary;
- Additional audit procedures as part of our going concern assessment and disclosure review, including those to meet the requirements of ISA570;
- Relevant work required to meet the requirements of the revised auditing standard for estimates, ISA 540.

Services provided by Ernst & Young	Final Proposed Fee 2021/22	Final Proposed Fee 2020/21
Description	£	£
Total Audit Fee – Code work	86,559	86,559
Additional fee requested from PSAA:	115,286	115,317
Non-audit work	-	-
Total	201,845	201,876

Appendix A – Fees: Wandsworth Pension Fund

We carried out our audit of the Pension Fund financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks and areas of audit focus in relation to:

- Significant risk: Risk of manipulation of Investment income and valuation [Management Override]
- Valuation of complex investments;
- Area of audit focus: Going concern disclosures;
- Area of audit focus: IAS 26 Disclosures;

As a result, we have requested an additional fee which remains subject to approval by PSAA Ltd. This is outlined in the table below and reflects the additional time required to complete the engagement not only in order to respond to the above risks, but also:

- Additional work in relation to the valuation of the LG Pension Fund arising from the 2022 Triennial Valuation;
- Additional time and work in respect of technical accounting issues;
- Additional audit procedures as part of our going concern assessment and disclosure review, including those to meet the requirements of ISA570;
- Relevant work required to meet the requirements of the revised auditing standard for estimates, ISA 540.

Services provided by Ernst & Young	Final Proposed Fee 2021/22	Final Proposed Fee 2020/21
Description	£	£
Total Audit Fee – Code work	21,175	21,175
Additional fee requested from PSAA:	55,982	51,027
Non-audit work	-	-
Total	77,157	72,202

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com