

Wokingham Borough Council

Audit Update

January 2024



**Wokingham Borough Council
Audit Committee
Civic Offices
Shute End
Wokingham
RG40 1BN**

26 January 2024

Dear Audit Committee Members

Audit Update

Please find below our Audit Update.

The purpose of this report is to provide the Audit Committee with an overview of the current status of the Council's audit status for 2021/22 and 2022/23.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audits.

Yours faithfully,

Janet Dawson

For and on behalf of Ernst & Young LLP

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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 Wokingham 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 Wokingham 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 Wokingham 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.



01

Progress Update – Financial Statements of the Council



Status of the audit

National context

We have reported proposed changes to the financial and audit reporting timetables being developed by the Department of Levelling Up, Housing and Communities (DLUHC) at previous meetings, namely that audits up to the 2022/23 financial year would need to be concluded - where practicable to do so - by a backstop date of 31 March 2024. If not deemed practically possible, auditors would be required to issue a modified audit report. Most modifications would be to disclaim audits under Ministerial Direction.

We now understand the Government's intention is to move the backstop date from 31 March 2024 to 30 September 2024 to ensure there is sufficient time to complete the necessary consultation, enact the required legislation and for auditors to work through the issuance of modified opinions.

The FRC reported in December 2023 that 411 local government body audits were not completed by the publishing date of 30 November 2022. They also reported that the backlog of earlier audits was also concerning, with 220 audits from earlier years incomplete at the same date. That meant a total of over 630 audits were not complete at the publishing date. That number had risen to 918 outstanding audits by the end of September 2023. Only 1% of 2022/23 audits were delivered by 30 September 2023. Based on our knowledge of the local government sector, we anticipate that approximately 20% of 2021/22 and earlier local government and approximately 50% of local government 2022/23 audits may be disclaimed under Ministerial Direction.

Our response

As set out in the letter from Stephen Reid, Partner, UK Head of Public Sector Audit dated 6 December 2023, EY is currently focusing its capacity on:

- Maximising the completion of historic audits - working to close open audits where audit work is substantially complete and with a high likelihood of issuing an opinion in a short period of time. The Wokingham BC audit was included in this category pre Christmas, however as explained above, we have not received adequate information to be able to complete the audit within the resources allocated at that time and given the position regarding the IAS 19 assurances, we do not anticipate being able to conclude the audit prior to the backstop date.
- Pension fund audits - These audits are not subject to the reset of the system; we continue to prioritise completion of all such audits to 2022/23.
- Value for Money reporting - As there are no anticipated changes to value for money reporting requirements, auditors' exception reporting responsibilities and statutory powers, we continue to prioritise the completion of our reporting up to the 2022/23 financial year. Given the increasing focus on the financial sustainability of the local government sector, as well as a focus on those authorities who are seen to be at greater risk of not achieving value for money, this is an important priority in providing necessary assurances to stakeholders. We have undertaken the majority of our work in assessing the VFM arrangements at the Council and anticipate reporting our findings in April 2024 for the period to 31 March 2023.
- Planning for 2023/24 audits - Where capacity allows, we will seek to commence planning for 2023/24; focusing on the most recent set of financial statements and supporting the reset for those audits we retain under the new PSAA contract to report on a timely basis.

Implications for the audit of the 2021/22 financial statements

The implication is that we are likely to issue a disclaimed audit opinion under the proposed changes in regulations, as communicated by the Minister for Local Government, Simon Hoare, in his letter of 9 January 2024 to the Select Committee of the Department for Levelling Up, Housing and Communities. We understand that the Department expects to issue a consultation in February that will set out the basis on which the disclaimer would be given, namely that the audit could not be completed before the backstop date.

Status of the audit

Implications for the 2022/23 audit

As set out in our letter dated 6 December 2023, mentioned above, we are prioritising our limited resources to progress audits where there is a high likelihood of issuing an opinion in a short period of time (early 2024).

As there are no anticipated changes to value for money reporting requirements, auditors' exception reporting responsibilities and statutory powers for 2022/23, we will focus on the completion of our value for money reporting for 2022/23. We are likely to issue a disclaimed audit opinion for the 2022/23 financial statements.

The value for money work usually leverages certain elements of our audit of the financial statements - as this is unable to go ahead at this time, we will need to perform certain aspects that would traditionally have been performed during the financial statements audit, such as agreeing the financial statements to the trial balance, completing the disclosure checklist and our cash and cash equivalents work (this is not an exhaustive list). In the context of the reset of the local government sector, these additional procedures aim to provide some additional assurance to members.

We currently anticipate working to conclude the value for money work, with interim reporting to the Audit Committee by the end of April.

Transition

Our proposed approach is designed to ensure that we can effect the reset of the audit and reporting cycle successfully and then enable capacity to support the system recovery by focusing on the most recent year's financial statements, being 2023/24, and getting the audit timetables back on track. We therefore encourage engagement with your newly appointed auditor to commence your audit of 2023/24 to support a sustainable recovery of the audit arrangements across the sector and, importantly timely reporting for the Council.

Status of the audit

2021/22 financial statements audit progress

Our audit planning report, issued in February 2023 identified the key areas of focus for our audit of the Council's 2021/22 financial statements. These have not changed as of the date of this progress report.

We have previously reported the continued delay in receiving the IAS 19 assurances from the auditors of Berkshire Pension Fund and at this stage, the auditors cannot provide us with a date of when they expect to be able to provide the assurances we require. We have requested that their programme of work includes testing of the membership to gain assurance over the triennial valuation of the pension fund as at 31 March 2022.

The material value of the pension liability within the financial statement of the Council means that, without sufficient assurance from the pension auditor, we would be unable to issue our audit opinion given the value presented, until this is resolved.

We reported in November that we expected the audit fieldwork to be complete by the end of December providing that we were able to obtain satisfactory responses in relation to the open valuations queries and any additional queries that were identified as we reviewed any responses (with the exception of our work over the IAS 19 disclosures). We and officers have worked hard together to ensure the smooth delivery of the audit, setting up regular touch points and discussing the required working papers. In discussion with officers, we scheduled additional time to complete the audit fieldwork in December, maintaining the same audit team that was working well with officers. Both teams have been committed to delivering the audit within a significantly shorter timeframe than in previous years, with the overall aim of "catching up" on delayed audits if possible whilst being mindful of the pressure this would place on the finance team in particular.

We had good engagement from officers in responding to the audit queries and samples being raised. As a result our audit work is well progressed with 82% of the work completed and in review. However, we have not been able to complete the audit in this time period mainly due to two key factors:

1. Lack of valuation information requested and required to complete our procedures within the areas of Other Land and Buildings and Investment Properties, despite ongoing discussions with the valuers and the Estates team throughout October to December. We had requested the information by 4 December, as we had appropriately experienced team members allocated to complete that work. We received some information to support the fieldwork on 18 December which, on review, is incomplete. The majority of the outstanding information is providing evidence to support the valuers' judgements. This is a subjective area and can be difficult and complex to provide evidence for and is further complicated as the key valuer at Carter Jonas has left.
2. Several areas of the audit (seven from a total of 30 areas of audit) where we were unable to obtain all of the evidence to complete our testing in the December period.

We have included a table in the appendix to this paper setting out the areas of the audit and progress to date. Until the audit is complete, we continue to challenge audit evidence and note that further matters may arise that may affect the form and nature of our audit opinion.

We have explained to officers that, as a result, we have been unable to complete the fieldwork within the time and resources planned and are now in a position where there is no further resource available to complete the audit, due to our prioritisation of work on the prior page.



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Progress Update - Value for Money





Value for money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a requirement under the 2020 Code is for us to include the commentary on arrangements in the Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

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Status of our 2021/22 VFM planning

Our assessment for the Council of the risk of significant weaknesses in the arrangements supporting each of the specified reporting criteria for 2021/22 is substantially complete, subject to review.

Our assessment focused on a combination of:

- Cumulative audit knowledge and experience.
- Review of Council committee reports,
- Review of other documentary evidence available on the Council's website.
- Consideration of financial and performance reporting and outcomes for the year.
- Regular engagement with Council management.

To date we have not identified a risk of significant weakness from our regular meetings with management or attendance at the Audit Committee.

Status of our 2022/23 VFM planning

Our assessment for the Council of the risk of significant weaknesses in the arrangements supporting each of the specified reporting criteria is substantially complete, subject to review and being able to complete our financial statements procedures once draft financial statements for 2022/23 have been received.



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Appendices





Appendix

Audit progress by area

The table below sets out the areas of audit by progress. Until the audit is complete, we continue to challenge audit evidence and note that further matters may arise that may affect the form and nature of our audit opinion.

Fieldwork complete and in review	Audit evidence still required	Minor open queries
<ul style="list-style-type: none"> Investments Debtors Borrowings Private Finance Initiative Grants received in advance Intangible assets Inventories (property) Revenue Expenditure Financed from Capital under Statute (REFCUS) Other operating expenditure Taxation and non specific grant income Other grant income Finance and investment income and expenditure Collection fund income and expenditure HRA income and expenditure Covid grants Financial instruments Reserves - MIRS and usable/unusable Remuneration report Actuarial gains and losses Pension scheme testing 	<ul style="list-style-type: none"> Property, plant and equipment valuations, including investment property valuations, infrastructure assets and council dwellings Cash and cash equivalents Pensions assurance (from Deloitte) 	<ul style="list-style-type: none"> Creditors Provisions Other disclosures Employee costs Other income and expenditure

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