

<b>TITLE</b>	<b>Ernst and Young Audit Results Report 31 March 2013</b>
<b>FOR CONSIDERATION BY</b>	Audit Committee on 25 September 2013
<b>WARD</b>	None Specific
<b>STRATEGIC DIRECTOR</b>	Julie Holland, Interim Head of Business Assurance & Democratic Services

#### **OUTCOME / BENEFITS TO THE COMMUNITY**

This report summarises the findings from the 2012/13 external audit which is now substantially complete. It includes the messages arising from the Ernst & Young's external audit review of Wokingham Borough Council's financial statements. It also details results of the work the Ernst & Young has undertaken to assess the Council's arrangements to secure value for money in its use of resources.

#### **RECOMMENDATION**

The Audit Committee is asked to note the EY Audit Results Report 31 March 2013 (attached).

#### **SUMMARY OF REPORT**

The report provides assurance on the financial statements and the Ernst & Young's value for money judgment.

- The report details the significant audit risks, the assurance gained over these risks and any issues arising;
- Findings and issues related to Internal Control; and
- The council's arrangement to secure economy, efficiency and effectiveness in its use of resources.

Details of the Audit Fees for the audit are detailed at page 10.

#### **Background**

The report has been discussed with the Chief Executive and the Strategic Director of Resources (Section 151 officer). The report enables the External Auditor to discharge their duty to provide an opinion on the council's financial statements.

#### **Analysis of Issues**

The Audit Committee should consider the findings of the report and if it provides sufficient assurance to enable them to discharge their responsibilities in relation to the annual financial statements.

## FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	Yes	N/A
Next Financial Year (Year 2)	N/A	Yes	N/A
Following Financial Year (Year 3)	N/A	Yes	N/A

### Other financial information relevant to the Recommendation/Decision

Not applicable.

### Cross-Council Implications (how does this decision impact on other Council services and priorities?)

Not applicable.

### Reasons for considering the report in Part 2

Not applicable.

### List of Background Papers

None.

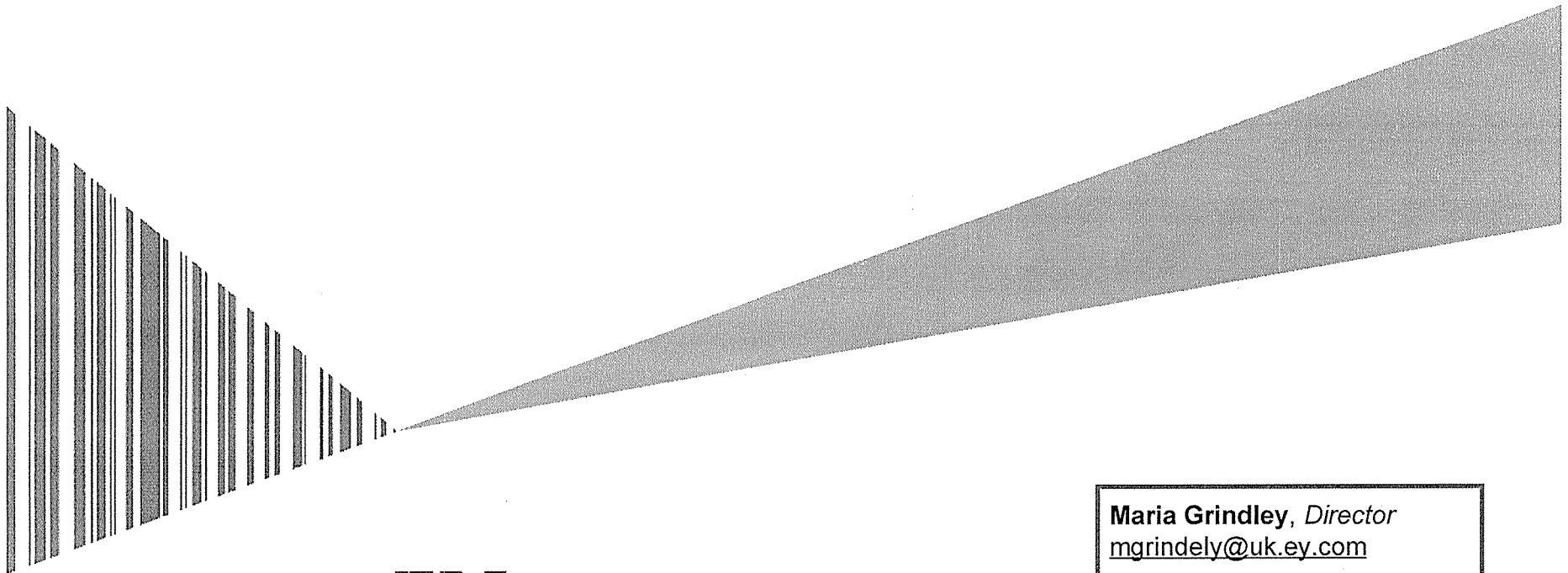
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<b>Date</b> 13 September 2013	<b>Version No.</b> 1

# Wokingham Borough Council – Audit Committee Summary

For the year ended 31 March 2013  
Audit results report – ISA 260

25 September 2013

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Building a better  
working world

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# Executive Summary

## *Key findings*

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### **Audit results and other key matters**

The Audit Commission's Code of Audit Practice (the Code) requires us to report to 'those charged with governance' on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2012/13 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

### **Financial Statements**

- ▶ As of 25 September 2013, we expect to issue an unqualified opinion. Our audit demonstrates that the Council has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

### **Value for Money**

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

### **Whole of Government Accounts**

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

### **Audit Certificate**

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the Audit Opinion.

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# Extent and purpose of our work

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## The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes 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.

## Purpose of our work

- ▶ Our audit was designed to:
  - ▶ Express an opinion on the 2012/13 financial statements
  - ▶ Report on any exception on the governance statement or other information included in the foreword
  - ▶ As a component auditor, follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule
  - ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
  - ▶ This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.
  - ▶ This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than this specified parties.

# Addressing audit risks

## Significant Audit risks

▶ We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
<b>Significant audit risks</b>		
1. Preparation of Group Accounts	<ul style="list-style-type: none"> <li>▶ Worked with Hazlewoods LLP, as the appointed auditor of your subsidiaries, to maximise the assurance taken for our audit of your group financial statements;</li> <li>▶ Verified IAS19 disclosures in your accounts for Optalis Ltd; and</li> <li>▶ Reviewed any necessary adjustments made as part of your group accounting processes to restate UK GAAP accounts to IFRS compliance.</li> </ul>	<ul style="list-style-type: none"> <li>▶ We have reviewed the consolidation schedules and the eliminations of intra-group transactions</li> <li>▶ No errors have been identified in the consolidation</li> </ul>
<b>Other audit risks</b>		
1. Risk of misstatement due to fraud and error	<p>Based on the requirements of auditing standards our approach focused on:</p> <ul style="list-style-type: none"> <li>▶ Identifying fraud risks during the planning stages.</li> <li>▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.</li> <li>▶ Understanding the oversight given by those charged with governance of management's processes over fraud.</li> <li>▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.</li> <li>▶ Determining an appropriate strategy to address those identified risks of fraud.</li> <li>▶ Performing mandatory procedures regardless of specifically identified fraud risks.</li> </ul> <p>We considered the results of the National Fraud Initiative.</p>	<ul style="list-style-type: none"> <li>▶ No issues have been identified from our work performed</li> <li>▶ We have completed the Audit Commissions National Fraud Initiative survey which required an assessment of how much work had been performed on the NFI data. The Council were rated a red risk due to the limited progress that had been made at the time of the survey.</li> </ul>

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# Financial Statements audit

## *Issues and errors arising from the audit*

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### Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
  - ▶ Receipt of a Letter of Representation
- ▶ Subject to receipt of your Letter of Representation we propose to issue an unqualified audit report on the financial statements.

### Uncorrected Errors

- ▶ We have identified no errors within the draft financial statements, which management have not adjusted.

### Corrected Errors

My audit identified a limited number of further errors which my team have highlighted to management for amendment. All of these have been adjusted during the course of our work.

We do not consider any of these to be significant and therefore we have not provided further details of these amendments.

### Other Matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
  - ▶ Qualitative aspects of your accounting practices;
  - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
  - ▶ Other audit matters of governance interest



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# Findings and issues

## *Internal Control*

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### Internal Control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for me to complete my audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We noted that Internal Audit identified a weakness in purchasing procedures that we consider sufficiently significant to require reporting to you.
  - ▶ Internal Audit found that, for 12 out of a sample of 25 transactions tested, the purchase order was raised retrospectively upon receipt of the invoice.
  - ▶ While all purchase orders were approved prior to payment, this process creates a risk of incurring inappropriate expenditure.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
  - ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
  - ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ The Council's established procedures should be followed. Purchase orders should be required and approved prior to the goods or services being requisitioned.

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# Findings and issues

## *Written Representations & Whole of Government Accounts*

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### Request for written representations

- ▶ We have requested that you confirm a number of matters, for which we do not currently have sufficient audit evidence.
- ▶ In addition to the standard representations, we request that you also confirm that the Council are satisfied that the assumptions used by the actuary in relation to the Berkshire Pension Fund are that, in your view, they are appropriate given the membership profile of the Council

### Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of my report are specified by the National Audit Office.
- ▶ We are currently concluding my work in this area and will report any matters that arise to the Audit Committee.

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# Arrangements to secure economy, efficiency and effectiveness

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*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Wokingham Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.*

## Criteria 1 – Arrangements for securing financial resilience

- ▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*
- ▶ In relation to this criteria we identified that the general financial outlook and the potential for this to impact on your services was a relevant risk in our audit plan;
- ▶ Although the Council's current financial position is healthy, managing this financial outlook will continue to be challenging. We reviewed the Council's medium term financial strategy and the actions you are taking to reduce costs and reshape services, including your new thematic review programme
- ▶ We have no issues to report in relation to this criteria

## Criteria 2 – Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
- ▶ In relation to this criteria we identified, that your arrangement to focus on what are, and are not service priorities and to measure what matters to you, as a relevant risk in our audit plan;
- ▶ The Council is fully aware that it needs to be clear about what are, and are not service priorities. Corporate and service performance monitoring needs to focus on measuring what matters to the Council, its Councillors, local businesses and residents. We reviewed how the Council plans to measure the impact of corporate and service reviews and to set bespoke performance targets and indicators to measure progress against key priorities.
- ▶ Recognising that your thematic review programme is ongoing and is progressing in line with the budget process.

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# Independence

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## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 16 April 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and 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 of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 25 September 2013.
- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (ISA) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 16 April 2013.

# Audit Fees

## Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2012/13 £s	Scale fee 2012/13 £s	Variation comments
Total Audit Fee –Code work	139,752	139,752	See below
Optalis Pension	2,000	0	
Certification of claims and returns	9,900	9,900	-
Non-Audit work	24,000	n/a	-

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have undertaken non-audit work outside of the Audit Commission’s Audit Code requirements. We provided financial analysis in respect of its on-going discussions on with FCC Environment (previously named Waste Recycling Group) to Wokingham, Bracknell Forest & Reading Councils. We understand that a more limited scope review of this area will also be provided to you in 2013-14.
- ▶ In addition we provided an audit view on the treatment of the Optalis pension liabilities.

Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

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