

TITLE	Annual Audit Letter 2012/13
FOR CONSIDERATION BY	Audit Committee on 27 November 2013
WARD	None Specific
STRATEGIC DIRECTOR	Julie Holland, Interim Head of Business Assurance and Democratic Services

OUTCOME / BENEFITS TO THE COMMUNITY

External Audit provides independent assurance over the way the council uses its resources including the production of its financial statements.

RECOMMENDATION

That the Audit Committee consider the attached letter.

SUMMARY OF REPORT

This letter summarises Ernst & Young's 2012/13 audit of Wokingham Borough Council. It includes the high-level messages highlighted in Ernst & Young's Audit Results Report which was presented to the Audit Committee on 25 September 2013.

Ernst & Young issued an unqualified opinion on the financial statements for the year ending 31st March 2013 and concluded that the council had made proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Ernst & Young certified completion of the audit.

The Annual Audit Letter confirmed that no action had been taken by External Audit under the Audit Commission Act 1998 in respect of the audit of the 2012/13 financial statements.

Background

See above.

Analysis of Issues

See above.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	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	N/A	N/A
Next Financial Year (Year 2)	N/A	N/A	N/A
Following Financial Year (Year 3)	N/A	N/A	N/A

Other financial information relevant to the Recommendation/Decision

N/A

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

N/A

Reasons for considering the report in Part 2

N/A

List of Background Papers

Ernst & Young's Audit Results Report – Presented to Audit Committee on 25 September 2013

Contact Julie Holland	Service Business Assurance and Democratic Services
Telephone No 0118 974 6630	Email Julie.holland@wokingham.gov.uk
Date 11 November 2013	Version No. V1

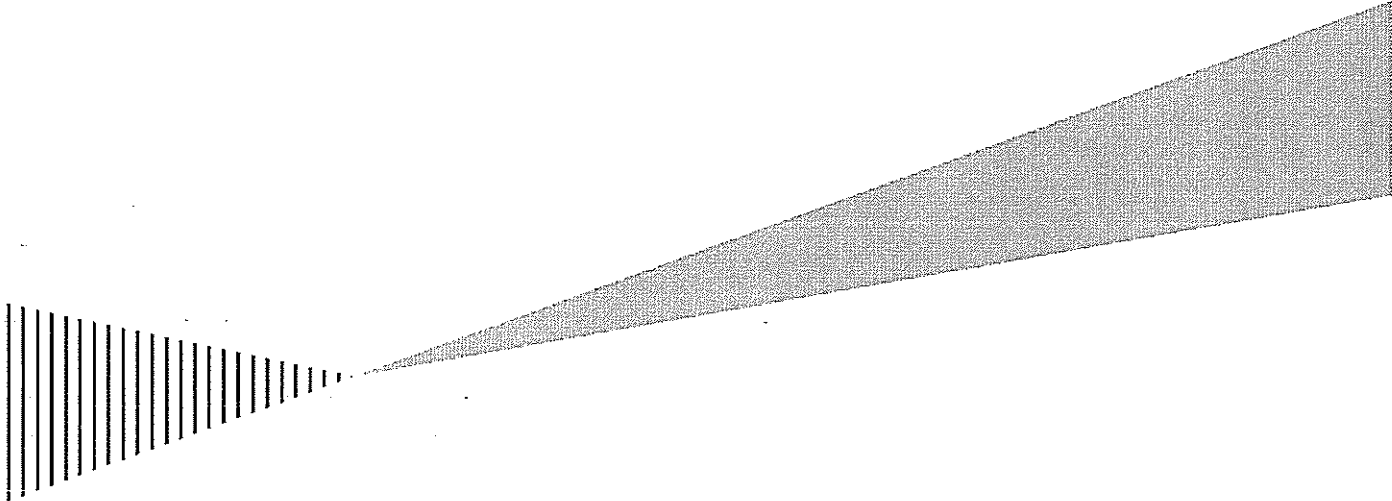
Wokingham Borough Council

Year ending 31 March 2013

Annual Audit Letter

25 October 2013

Ernst & Young LLP





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

Tel: +44 20 7951 2000
Fax: +44 20 7951 1345
ey.com



The Members
Wokingham Borough Council
Shute End
Wokingham
Berkshire
RG40 1BN

25 October 2013

Dear Members

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Wokingham Borough Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We reported the detailed findings from our audit work to the Council's Audit Committee on 25 September 2013. This meeting was open to the public and the papers and minutes of this meeting are available online at www.wokingham.gov.uk.

The matters reported here are those we judge to be the most significant for the Authority as a whole.

I would like to take this opportunity to thank the officers of Wokingham Borough Council for their assistance during the course of our work.

Yours faithfully

Maria Grindley
Director
For and behalf of Ernst & Young LLP

Enc.

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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 Wokingham Borough Council 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 Wokingham Borough Council 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the Wokingham Borough Council, 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.

1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan which was considered by the Council's Audit Committee on 16 July 2013. Our audit and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis 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 Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Wokingham Borough Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland).	On 25 September 2013 we issued an unqualified audit opinion in respect of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 25 September 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 25 September 2013 we issued our report in respect of the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 25 September 2013.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.

Executive summary

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

No issues to report.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

On 25 September 2013 we issued our audit completion certificate.

Issue a report to those charged with governance of the Authority summarising the certification of grant claims and returns work that we have undertaken.

On 6 February 2013 we issued our annual certification report to those charged with governance with respect to the 2011/12 financial year.

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 25 September 2013.

In our view, the quality of the process for producing the accounts, including the supporting working papers continued to be good.

We asked the Council to make four adjustments to its accounts during our audit. Officers corrected these entries in the financial statements adopted by the Council on 19 September. Further details of these adjustments are contained in our Audit Results Report which was discussed with the Council's Audit Committee on the same day. This meeting was open to the public and the papers and minutes of this meeting are available online at www.wokingham.gov.uk.

The main issues identified as part of our audit were:

Issue: Group financial statements

The Council has a number of subsidiaries that require additional financial statements to be prepared showing the complete financial position of the group of companies under control of the Council.

We worked with Hazlewoods LLP, the appointed auditor of the Council's subsidiaries, to complete our audit of the Council's group financial statements.

We reviewed the accounting entries needed to create group financial statements from the individual accounts of each subsidiary and from those of Wokingham Borough Council itself.

Finding:

We issued an unqualified opinion on the Council's accounts, including the Council's group financial statements.

Issue: Risk of misstatement due to fraud and error

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Finding:

We carried out the procedures highlighted in our Audit Plan, and had no findings to report.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

Key findings

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 25 September 2013.

Criteria 1: Financial Standing

We define this criteria as “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”.

We identified that the general national financial outlook and the potential for this to impact on Council services was a relevant risk to the Council’s financial standing in our audit plan.

To satisfy ourselves that the Council has appropriate arrangements in place to respond to this challenge, we reviewed the Council’s medium term financial strategy and the actions it is taking to reduce costs and reshape services, including the Council’s new thematic review programme.

After completing our work, we concluded that, although managing this financial outlook will continue to be challenging, the Council’s current financial position is healthy and suitable arrangements to respond to this agenda are planned or are in place.

Criteria 2: Arrangements for securing economy, efficiency and effectiveness

We define this criteria as “Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”

We identified, that the Council’s arrangement to focus on what are, and are not service priorities and to measure what matters to both service users and other stakeholders, was a relevant risk in our audit plan;

To satisfy ourselves that the Council has appropriate arrangements in place to achieve this, we reviewed how the Council plans to measure the impact of corporate and service reviews and to set performance targets and indicators that are meaningful to Wokingham and will measure progress against key priorities.

After completing our work, we concluded that 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 also concluded that the Council is taking steps to reshape services and the timetable for this is progressing in line with plans.

2.3 Objections received

We received no objections to the 2012/13 accounts from members of the public.

2.4 Whole of government accounts

We reported to the National Audit office on 25 September 2013 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts. We did not identify any areas of concern.

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Authority’s Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern

2.6 Certification of grants claims and returns

We presented our Annual Certification Report for 2011/12 to those charged with governance on 7 January 2012. We certified four claims and returns worth £82,700k. We did not identify any significant issues from the certification of the claims and returns. We will issue the Annual Certification Report for 2012/13 in January 2013.

3. Control themes and observations

As part of our audit of the financial statements, 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 communicated to those charged with governance at the Authority, as required, significant deficiencies in internal control.

We identified one matter that we concluded was of sufficient importance to merit being reported.

Description	Impact
We noted that Internal Audit identified a weakness in purchasing procedures. They found that, for 12 out of a sample of 25 transactions tested, the document authorising the purchase was raised only on receipt of the bill from the supplier, after the actual goods or services had been received.	While all purchase orders were actually approved prior to payment, this process creates a risk of incurring inappropriate expenditure.

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

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