

TITLE	Ernst and Young Audit Results Report 31 March 2014
FOR CONSIDERATION BY	Audit Committee on 23 September 2014
WARD	None Specific
STRATEGIC DIRECTOR	Julie Holland, Service Manager, Business Improvement (and Head of Audit)

OUTCOME / BENEFITS TO THE COMMUNITY

This report summarises the findings from the 2013/14 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 2014 (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 Director of Finance and 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

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	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, including properties and priorities?)

Not applicable.

Reasons for considering the report in Part 2

Not applicable.

List of Background Papers

None.

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Date 12 September 2014	Version No. 1

Wokingham Borough Council

Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

23 September 2014



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|| Mark Catlow, Senior Manager
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Executive summary

Key findings

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, the Audit Committee, 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 2013/14 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 23 September 2014, we expect to issue an unqualified opinion on the financial statements.

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 Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Extent and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the Council reports publicly how it complies with its own code of governance, including how it monitors and evaluates the effectiveness of its governance arrangements in the year, and whether there are any planned changes in the coming year.

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 2013/14 financial statements;
- report on any exception on the governance statement or other information included in the foreword; and,
- consider and report on 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)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow group instructions issued by the National Audit Office and send to them our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

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 the specified party.

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 risks within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>The new system of local retention of business rates assumes authorities will receive their baseline funding level as income. This system created additional disclosures and accounting entries in your financial statements.</p> <p>As successful rating appeals are now settled partly from local authority funds the Council needed to establish arrangements to properly estimate and account for this liability. This included not only claims from 1 April 2013 but also those relating to periods before the introduction of the business rates retention scheme.</p> <p>As appeals are to the Valuation Office (VOA), many Councils were not be aware of the level of claims made, reducing the reliability of provision made against these liabilities.</p>	<p>Our work focussed on:</p> <ul style="list-style-type: none"> Identifying how the Council plans to approach the preparation of accounting entries related to local retention of business rates; Consideration of the effectiveness of management's controls designed to oversee this process; Determining an appropriate risk based strategy to address identified risks of material misstatement; Performing mandatory procedures regardless of specific risks. 	<p>We concluded that the Council has complied with the requirements of the Code of Accounting practice in determining its provision for NDR appeals recorded in the financial statements.</p> <p>Whilst the Council had the lowest comparative provision against appeals of the unitary councils considered, we were satisfied with the process adopted by the Council to prepare this estimate and we found no evidence on management bias in the estimate itself.</p> <p>We identified one error in the calculation of the provision. The percentage of successful appeals was calculated incorrectly as it was based on the full population of appeals, where as we would have expected outstanding appeals to have been excluded. Recalculating the provision to adjust for this indicates the NDR provision is potentially under estimated £504k. The Council's general fund share of this would be £252k. We discussed this adjustment with management and their view is that the estimate is currently sufficiently accurate and no further adjustment is needed. We include this item as an unadjusted error in Appendix 1.</p> <p>During our work we also noted that more work is needed to review and refund credit amounts against NDR accounts, some of which are now almost 10 years old. Management have agreed to review this area in 2014-15.</p>
<p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>We:</p> <ul style="list-style-type: none"> tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements Reviewed accounting estimates for evidence of management bias; and Evaluated the business rationale for any significant unusual transactions. 	<p>Our audit work identified no audit or governance issues.</p>

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- Our work programme is now complete subject only to receipt of a Letter of Representation from Those Charged with Governance (TCWG) and completion of Whole of Government Accounts work on behalf of the National Audit Office.
- We are also awaiting information from the auditors of Berkshire Pension Fund (KPMG) to complete our work in respect of your IAS19 disclosures.

summary of any corrections made to the statements of accounts below our normal reporting threshold:

- There was one classification adjustment made to your group cashflow statement. The reclassification was £1.4m and below our usual reporting threshold. There was no net effect of this reclassification.
- Alongside this correction, there were a number of minor adjustments to text in the notes to the accounts, the most significant of these were to disclosure Public health as an acquired function on the CIES and to correct the vacant possession value of HRA dwellings disclosed in note 3 to the HRA to ensure it agreed to the HRA itself.

Uncorrected Misstatements

We identified one misstatement within the draft financial statements, which management has chosen not to adjust.

We request that this uncorrected misstatements be corrected or a rationale as to why it has not corrected be considered and approved by the Audit Committee and provided within the Letter or Representation

- Appendix 1 to this report sets out the uncorrected misstatement

Corrected Misstatements

Our audit identified a number of further misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work. Whilst we do not consider any of these to be significant individually or in aggregate, those charged with governance asked us to also provide a

Financial statements audit (continued)

Other matters and Internal Control,

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; estimates and disclosures;

- 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; and,

- Any significant difficulties encountered during the audit; and

- Other audit matters of governance interest,

We have no such matters we wish to report.

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. Our 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 us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

- 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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Financial statements audit (continued)

Written Representations & Whole of Government Accounts

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. In addition to the standard representations, we have requested the following specific representations:

- Should the Council decide not to adjust for item identified on appendix 1, we request that you provide a representation as to why it has not corrected to us.

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 our report are specified by the National Audit Office.
- We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

Arrangements to secure economy, efficiency and effectiveness

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"

We did not identify any significant risks in relation to this criteria.

We have completed our planned audit work in this area and have not identified any issue casting doubt on our ability to conclude you have proper arrangements in place in respect of 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."

We did not identify any significant risks in relation to this criteria.

We have completed our planned audit work in this area and have not identified any issue casting doubt on our ability to conclude you have proper arrangements in place in respect of this criteria.

We have no other issues to report

Audit fees

Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee - Code work	139,752	139,752	-
Certification of claims and returns	Note 1	6,917	
Non-audit work	21,000	n/a	Agreed additional work

- ▶ 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 any 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.
- ▶ Note 1; We are unable to provide a figure at this stage for our proposed final certification fee for 2013-14 as we have not yet completed the work. The final fee will be reported to you in our report on certification work expected early in 2015.

Independence

Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated April 2014.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. 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 23 September 2014.

- We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of April 2014.

Appendix 1 - Uncorrected audit misstatements

- The following misstatements, which are greater than £329k, have been identified during the course of our audit.
- These items have not been corrected by management.

Balance Sheet, CIES and Collection Fund

Item of Account	Nature	Type	Entry	EK
	Description	F, P, J	Debit/(Credit)	
Provision for NDR appeals	Increase in expenditure charged to Collection Fund - 100%		Collection fund - memorandum	504
Charge to provision and collection fund adjustment account - billing authority	Underestimate of NDR appeal provision - General Fund - 49% attributable to Wokingham	Judgemental	Provisions	(246)
			CFAA	246
Charge to CFAA and adjustment to surplus held on behalf of precepting authorities	Underestimate of NDR appeal provision - General Fund - 51% attributable to preceptors	Judgemental	Creditors	258
			CFAA	(258)
Cumulative effect of uncorrected misstatement				

- Key
- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

Appendix 2 - Corrected audit misstatements

The following misstatements, have been identified during the course of our audit and, at your request, have been communicated to you.

These items have been corrected by management within the revised financial statements.

Group Cash Flow Statement

Item of Cash Flow	Description	Operating cash flows Increase/ (Decrease)	Investing cash flows Increase/ (Decrease)	Financing cash flows Increase/ (Decrease)
Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	Incorrect adjustment made for intra-group cashflows	(1,400)	1,400	
Cumulative effect of corrected misstatement		<i>Nil</i>	<i>Nil</i>	

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.

