

Public Document Pack



**WOKINGHAM
BOROUGH COUNCIL**

Civic Offices
Shute End
Wokingham
RG40 1BN

Tel: 0118 974 6054
E-mail: democratic.services@wokingham.gov.uk

To:- All Committee Members

AUDIT COMMITTEE - WEDNESDAY, 5TH FEBRUARY, 2020

I am now able to enclose, for consideration at the next Wednesday, 5th February, 2020 meeting of the Audit Committee, the following reports that were marked as 'to follow' on the agenda sent out recently.

Agenda No	Item
------------------	-------------

58.	<u>2018/19 Audit results report (Pages 3 - 52)</u>
-----	---

To receive the 2018/19 Audit results report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Susan Parsonage', written in a cursive style.

Susan Parsonage
Chief Executive

This page is intentionally left blank

Wokingham Borough
Council
Audit results report

Year ended 31 March 2019

February 2020

3

EY

Building a better
working world

Agenda Item 58.

29 January 2020



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of Audit Committee.

We presented a draft of this report setting out our preliminary audit conclusion in relation to the audit of Wokingham Borough Council for 2018/19 to the Audit Committee meeting on 24 July 2019. We had largely completed our audit work at the date of the Committee, but we were informed by the auditor of The Royal County of Berkshire Pension Fund that their work was not complete and they were unable to provide us with the required assurances over the IAS19 liability pension fund disclosures.

We received the assurance letter on 24 January 2020, and we are completing our review of the amended pension fund disclosures in light of the assurances received from the Pension Fund auditor. However, we have to complete additional procedures for the Council as not all work requested was completed.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, following the Audit Committee on 5 February 2020. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss this report with you at the Audit Committee on 5 February 2020.

Yours faithfully

Helen Thompson
Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This 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 (updated April 2018)' issued by 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 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 / Terms and Conditions of Engagement. 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.



9

01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented to the 6 February 2019 Audit Committee, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality: We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services, we have updated our overall materiality assessment to £6.269m (audit planning report – £6.975m). This results in updated performance materiality, at 75% of overall materiality, of £4.701m, and an updated threshold for reporting misstatements of £0.313m.

There has been one change to our audit planning report, presented to the Audit Committee in February 2019. We communicated this change to the Audit Committee on 5 June 2019 in our audit progress report.

Description	Detail of changes to our scope
Significant Value for Money (VFM) risk identified since the planning stage	When the audit planning report was written in December 2018, we were not in a position to be able to fully scope our VFM risk. However, a significant risk was identified in relation to the Council's arrangements around informed decision making. We reported the risk to the Audit Committee on 5 June 2019. Details of this risk, and our audit work carried out in response, are at Section 5 of this report.

Status of the audit

We have largely completed our audit of Wokingham Borough Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our audit planning report. The following matters are outstanding and will be completed up to and following the Audit Committee:

- completion of our work on the revised pension liability disclosures
- review of the final version of the financial statements
- receipt of the signed financial statements and management representation letter
- completion of subsequent events review
- completion of our audit conclusion procedures following receipt of the above

We expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until the remaining work is complete, further amendments may arise.

Status of the audit (cont)

Pension disclosures

A national issue resulted in the consideration of the need for a relatively late change to the Council's accounts and IAS19 disclosures. It related to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft accounts did not recognise this issue as it was considered not to be sufficiently material to disclose a contingent liability. However, following the year-end there was additional evidence, including the legal ruling by the Supreme Court on 27 June 2019 which denied the Government leave to appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS19 liability disclosed within the financial statements.

In July 2019, the Council was expecting a revised IAS19 report from the actuary of the Royal County of Berkshire Pension Fund to enable an assessment of the materiality of McCloud adjustments to the Council's accounts. On 24 July 2019, we were notified by the auditor of the Pension Fund that they were unable to complete their audit, and issue the letter that we require to obtain assurance over the information supplied to the actuary in relation to Wokingham Borough Council.

The delay in the certification of the Pension Fund audit was due to audit concerns about two specific issues: the valuation of a longevity hedge and the valuation of a convertible bond. As a consequence, the Pension Fund accounts were revised, with the valuation of these assets being reduced by £74.5m in total, and their accounts were signed on 10 December 2019.

Your officers requested a fully revised report from the Pension Fund to update the IAS19 disclosures within the Council's statements. We received the revised statements from officers on 6 January 2020; and we received the assurance letter from the Pension Fund auditor on 24 January 2020. The auditor of the Pension Fund did not complete all the work we requested, and we are carrying out additional procedures to ensure we have the appropriate audit evidence. We expect this to be completed before the Audit Committee.

Executive Summary

Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that it is corrected or a rationale as to why it is not corrected be approved by the Audit Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £441,000. We agree with management's assessment that the impact is not material.

At the date of issuing this report (29 January 2020) we have not identified any further audit differences, either unadjusted or adjusted, that we are required to report to you. If any further differences arise, we will bring them to your attention at the Audit Committee.

Details can be found in Section 4 Audit Differences.

Areas of audit focus

Our audit planning report identified key areas of focus for our audit of Wokingham Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

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. There are no matters we wish to report.



Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our audit progress report, dated June 2019, we identified one significant risk in relation to the Council's arrangements around informed decision making. We have concluded our work, and we have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Further details on the work performed and our conclusions are set out at Section 5 of this report.

Other reporting issues

We have reviewed the information presented in the Narrative Statement and Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to bring to your attention.

In addition we are required to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We confirm that Wokingham Borough Council is under the threshold for full audit procedures. We submitted the Assurance Statement required for bodies which fall under the threshold confirming this was the case to the NAO in September 2019.

Independence

Please refer to Section 9 for our update on Independence. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



11

02 Areas of Audit Focus

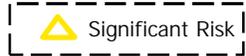




Areas of Audit Focus

Significant risk

Misstatements due to fraud or error



What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of expenditure as a potential area of manipulation, which is recorded as a separately identified significant risk.

Our work on estimates focussed on PPE and Investment Property valuation, IAS19 pension estimates, and PFI valuation, which we have identified as areas of higher inherent risk. Our findings on these areas is set out on the subsequent pages in this section of our report.

What did we do?

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

What are our conclusions?

We completed our work and we did not identify any:

- evidence of material management override.
- instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.
- transactions during our audit which appeared unusual or outside the Council's normal course of business



Areas of Audit Focus

Significant risk

Risk of incorrect capitalisation of revenue expenditure

13

What is the risk?

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.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

What judgements are we focused on?

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts, so we focused on the judgement applied to these classifications.

We focused our substantive testing on the risk of incorrectly classifying revenue expenditure as capital additions, This would decrease the net expenditure from the general fund, and increase the value of non-current assets.

What did we do?

Our approach focused on:

- For significant additions, we examined invoices, capital expenditure authorisations, leases and other data that support these additions. We reviewed the sample selected against the definition of capital expenditure in IAS16.
- We extended our testing of items capitalised in the year by lowering our testing threshold. We will also reviewed a larger random sample of capital additions below our testing threshold.
- We tested REFCUS to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources.
- We identified and reviewed the basis for significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

What are our conclusions?

Our sample testing of additions to property, plant and equipment found that they had been correctly classified as capital and included at the correct value.

Our sample testing of additions to property, plant and equipment did not identify any revenue items that were incorrectly classified.

Our sample testing of REFCUS transactions found that they had been correctly classified and the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state.

Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.





Areas of Audit Focus

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What did we do?
<p>Pension Liability</p> <p>The Local Council 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 Royal Borough of Windsor and Maidenhead Council.</p> <p>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. At 31 March 2018 this totalled £279.5m.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary 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 and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>An additional level of risk has arisen since the Audit Plan was released; a national issue has resulted in the consideration of the need for a relatively late change to the Council's accounts and IAS19 disclosures. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft accounts did not recognise this issue as it was considered not to be sufficiently material to disclose a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27 June 2019 which denied the Government leave to appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS19 liability disclosed within the financial statements.</p>	<p>We:</p> <ul style="list-style-type: none"> ➤ Liaised with the auditors of The Royal County of Berkshire Pension Fund and obtained assurances over the information supplied to the actuary in relation to Wokingham Borough Council. ➤ Assessed the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. ➤ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. ➤ Considered the materiality of the 'McCloud judgement' on the Council's IAS19 disclosures and agreed the figures to updated actuarial reports. <p>The Council requested a revised IAS19 report from the Pension Fund, following the completion of the Pension Fund audit in December 2019. The Council has revised its disclosures for the IAS19 liability, including the impact of the McCloud judgement.</p> <p>At the time of writing (29 January 2020) we have agreed the revisions made to the financial statements by officers to the revised IAS19 report. We have concluded that we could rely on the work of the Pension Fund actuary. The values and entries from the actuarial report were materially correct within the Authority's financial statements.</p> <p>As reflected in the Executive Summary, the auditor of the Pension Fund did not complete all the work we requested, and we are carrying out additional procedures to ensure we have the appropriate audit evidence. We expect this to be completed before the Audit Committee.</p>



Areas of Audit Focus

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Valuation of Property Plant and Equipment/Investment Property

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances, at £776.1m and £6.1m respectively for the year ended 31 March 2018, in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

15

Group accounting

The Council does not currently produce group accounts because its group component companies are assessed under the relevant accounting guidance as being not significant and therefore, out of scope. Our own quantitative group scoping assessment supports this. However, the 2018/19 draft accounts show that Optalis expenditure equals 13.85% of the parent and 12% of the group as a whole. While this is below the 15% threshold informed by ISA (International Standard on Auditing) 600, the £45 million expenditure of Optalis requires us to carry out a qualitative assessment as to the risk of material misstatement within the Council's accounts, given that our audit opinion is based on materiality of £6.2 million (which would require the Optalis accounts to have an error rate of 14% to be at risk of material parent misstatement). Optalis expenditure is budgeted to fall by £2/3 million in 2019/20 which will take the component further out of scope.

The Balance sheet of Optalis has no balances above materiality.

What did we do?

We:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP.
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated.
- Considered changes to useful economic lives as a result of the most recent valuation.
- Tested accounting entries have been correctly processed in the financial statements.

There are no issues that we need to bring to the attention of the Audit Committee.

We:

- Carried out a qualitative assessment which identified that Optalis has:
 - no history of material error in its accounts
 - no history of unusual transactions or significant adjustments
 - no accounting that requires significant judgement or estimates
 - no history of sector-specific accounting issues
 - no complex related party relationships, foreign currency or derivative transactions
 - been assessed by group management as low risk of material error.
- Reviewed the 2018/19 accounts of Optalis.
- Obtained the 2018/19 independent auditor report for Optalis which identified no material issues.
- Reviewed and assessed (as strong) the governance arrangements over subsidiaries
- Agreed all component figures to supporting evidence.



Areas of Audit Focus

What is the risk/area of focus?

PFI accounting

The Council has one PFI arrangement with Waste Recycling Group RE3 Ltd, which is material to our audit. This is a joint PFI contract (entered into in 2006/07) with Reading Borough Council and Bracknell Forest Council for the disposal of waste. The total value of the contract is estimated to be £467m as at 31 March 2018, to be shared between the councils on relative throughput.

Actual payments are based on the contractor's performance as well as that of the individual councils in waste collection. Estimated payments to be made by Wokingham Borough Council under the contract are £192.9m over the next 15 years of the contract.

As part of the contract, the contractor built a transfer station, materials recycling facility and other amenities. The Council's share of the assets, valued at £8.9m as at 31 March 2018, are recognised as Property Plant and Equipment on the Council's Balance Sheet. The liability resulting from the contract, at the end of March 2018, was reported as £7.1m.

PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal expert in 2016/17. We will review the accounting entries and disclosures in relation to PFI in detail in 2018/19, with a focus on any significant changes since the expert's review in the previous year.

What did we do?

PFI is a complex area and we commissioned a detailed review of the RE3 arrangements, for the three councils involved, namely Wokingham Borough Council, Bracknell Forest Council and Reading Borough Council.

Our PFI specialist:

- Included a review of the assumptions used in the RE3 PFI accounting model and compared these to a parallel model.
- Provided comment on local adjustments made to the output from the RE3 model held by the host council, Reading Borough Council.
- Reviewed the planned entries and disclosures for the Council's 2018/19 statement of accounts and ensured they were consistently reported across the three councils.

Our specialist noted non-material net differences of around £1.1 million between the parallel PFI model and the RE3 accounting model. Upon investigation, these differences were down to two factors; assumptions applied to the profit on fixed assets and the profit on capital costs. Once these were factored into the parallel model, the net difference between the models was reduced to £132,000, which is below our threshold for reporting misstatements of £313,000. We are satisfied that we have appropriate assurance that the PFI accounting model produces figures which are materially correct.



Areas of Audit Focus

What is the risk/area of focus?

What did we do?

IFRS 9 financial instruments

This new accounting standard is applicable for local Authority accounts from the 2018/19 financial year and will change:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9.

We:

- Assessed the Council's implementation arrangements which included an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered the classification and valuation of financial instrument assets;
- Reviewed the new expected credit loss model impairment calculations for assets; and
- Checked additional disclosure requirements for compliance with the CIPFA Code.

We concluded that the Council's disclosures were in line with Code requirements.

IFRS 15 Revenue from contracts with customers

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

We:

- Assessed the Council's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered application to the Council's revenue streams; and
- Checked additional disclosure requirements for compliance with the CIPFA Code.

We have reviewed and agree with the Council's impact assessment that the revenue is recognised on an accrual basis and, as most of the transactions for providing goods and services are immaterial, there is no impact of IFRS15 to the accounting or disclosure requirements for the Council. As such, no restatement of the accounts was required.



18

03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WOKINGHAM BOROUGH COUNCIL

Opinion

We have audited the financial statements of Wokingham Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the Authority and Group Movement in Reserves Statement; the Authority and Group Comprehensive Income and Expenditure Statement; the Authority and Group Balance Sheet; the Authority and Group Cash Flow Statement; and the related notes 1 to 47; the Housing Revenue Account Income and Expenditure Statement; the Movement on the Housing Revenue Account Statement and the related notes 1 to 13; the Collection Fund and the related notes 1 to 3; and the Statement of Accounting Policies.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Wokingham Borough Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit

of the financial statements section of our report below We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Deputy Chief Executive's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Deputy Chief Executive has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Narrative Report and Annual Governance Statement set out on pages 3 to 13, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



Audit Report

Our opinion on the financial statements

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

20 Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Wokingham Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;

- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Deputy Chief Executive

As explained more fully in the Statement of Responsibilities set out on page 14, the Deputy Chief Executive is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Deputy Chief Executive is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Audit Report

Our opinion on the financial statements

Auditor’s responsibilities for the audit of the financial statements
 Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor’s report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
 We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Wokingham Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Wokingham Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen Thompson (Key Audit Partner)
 Ernst & Young LLP (Local Auditor)
 Southampton
 Date



22

04 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £4.7 million which have been corrected by management that were identified during the course of our audit:

The Council requested a revised IAS19 report from the Pension Fund, following the completion of the Pension Fund audit in December 2019. The Council has revised its disclosures for the IAS19 liability, including the impact of the McCloud judgement. The impact on re-measurement of scheme assets amounted to a reduction in value of £10.6m.

As at 29 Jan 2020, there were no corrected misstatements above the set threshold.

23

There was one uncorrected misstatement; see table below

Audit Differences

Summary of unadjusted differences

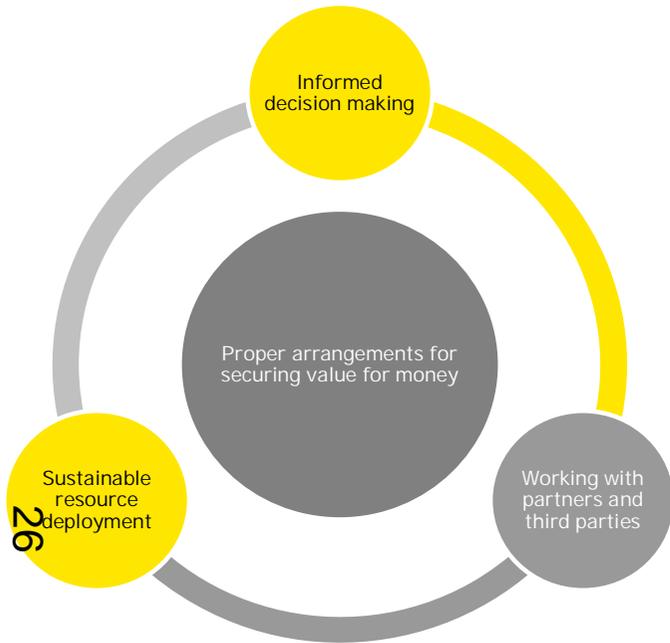
In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 2018/19 (£000)	 Effect on the current period:	 Balance Sheet (Decrease)/Increase			
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Errors					
24 NNDR appeals provision included in accounts as only 90% of calculated gross provision; as such, this is understated in the CIES by 10%.	441			(441)	
Understatement of NNDR Ratepayer Arrears when compared to the Collection Fund model	(895)	895			
Cumulative effect of uncorrected misstatements	(454)	895		(441)	



25

05 Value for Money Risks



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified one significant risk around these arrangements. The tables below present our findings in response to the risk. We did not identify any significant risks in our Audit Planning Report, but subsequently raised one which was reported to the Audit Committee, in an Audit Progress Report, on 5 June 2019.

We therefore expect having no significant matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources, but have highlighted some areas where presentational improvements would highlight the solid arrangements already in place,.



Value for Money Risks – Significant risk

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risk area reported in our June 2019 Audit Progress Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our overall findings?
<p>During 2018 there were significant changes within the top management team and political leadership at the Authority. This uncertainty could potentially give rise to a lack of clarity in role accountability and responsibility regarding delivery of the annual and medium term budget and savings targets, which could manifest itself in the presentation and ownership of the Medium Term Financial Plan (MTFP), and other key Authority financial documents.</p> <p>We are content that the Authority’s financial plans are fully balanced with no budget gaps, however, this risk would be inherent at any local government body that has faced the levels of senior staff attrition that Wokingham Borough Council has faced over the past year.</p>	<p>Take informed decisions</p>	<p>We concluded that the Authority has appropriate reporting flows and processes in place to ensure that the MTFP is properly prepared and approved in line with the Authority’s financial and governance framework. We also determined that the decision-making processes are strong and that key financial decisions are properly challenged and subjected to a good level of scrutiny, all of which is made available to external stakeholders.</p> <p>We also concluded that the Authority ensures appropriate oversight of subsidiaries through the subsidiaries’ board selection and monthly board meetings attended by the Authority officers and the Chief Finance Officer.</p> <p>We found that the Authority’s budgeting processes are strong and medium term budgets are fully balanced. However, we found the presentation of the information in the MTFP difficult to follow and extract, resulting in a lack of clarity which, on a presentational level, compromises the strength of the underlying financial data. The MTFP does not signpost the impact of budget proposals on service levels, which potentially makes it difficult to see the complete financial picture and could impact members’ ability to make informed decisions.</p> <p>Capacity within the Finance team remains an ongoing concern and the Authority is working hard to address this; but there is a risk that while solid arrangements are in place for MTFP and financial statements preparation, they may not be followed if the finance team is over-stretched. An example of this has been observed in our final accounts audit where expenditure samples from our interim visit are still outstanding in July.</p> <p>Further details of our findings have been included below.</p>

Value for Money significant risk – detailed findings

This table provides further detail of the work we carried out to arrive upon our overall VFM conclusion. We identified four areas of focus, which have been sub-headed below.

Detailed VFM findings

Review and evaluation of the governance arrangements around financial decision making established by the Authority, including an assessment of whether there are appropriate arrangements put in place to support informed decision making.

Through review of the entity level controls and the process of financial decision making at the Authority we are satisfied that, despite the level of change to senior management and political leadership in the financial year, the Authority has a robust decision-making process with the Overview and Scrutiny Committees acting to ensure that the work of the Executive is being delivered efficiently and cost-effectively.

We have taken steps to understand the reporting flow in the Authority and how the MTFP is prepared and approved, and reviewed the arrangements around challenging senior management proposals and financial decision making. Through a minute review and reviewing video of a Authority meeting we determined that the decision-making process is sufficient and that key financial decisions have been properly documented.

28 Review of the MTFP preparation process and perceived ease of extracting key information to inform decisions, to evaluate the adequacy of financial and non-financial information presented to the Authority.

In our review of the MTFP preparation process to evaluate the adequacy of financial and non-financial information presented to the Authority, we sought to understand the governance arrangements around the production and approval of the MTFP, and evaluate the information presented as to whether it is appropriate for informed decision-making.

We concluded there are appropriate governance arrangements designed around the production and approval of the MTFP but, based on a more detailed review of governance arrangements, there are improvements to be made for the Finance function to operate more effectively, most notably to improve resourcing levels, and ensure implementation of the documented arrangements.

We have raised a matter over the presentation of the information in the MTFP based on our detailed follow-through of the embedded numerical data, which identified the key data was difficult to follow and extract. This made understanding the overall picture complex, which could be a concern for members without an accounting background to effectively debate the MTFP. We also noted the MTFP lacked commentary on the non-financial and KPI impact of budget proposals which would provide a more robust context for financial planning, although we recognise this is reported elsewhere.

Overall, while strong processes are in place, there are opportunities to further improve the MTFP which would increase transparency for members' and their ability to make informed decisions.

Value for Money significant risk – detailed findings

Detailed VFM findings

Reviewing minutes/videos of the Authority meetings to determine whether key decisions were challenged appropriately, to understand the Authority's response to overspending and how the critical financial and strategic decisions are implemented.

To determine whether key decisions made by the Authority were challenged appropriately, we reviewed meeting minutes and a video recording of a Authority meeting, which also included the Authority's monitoring and challenging of overspending, and reviewed documents presented to the Authority in support of these decisions. Our review of key decisions, such as the MTFP approval and Housing Revenue Account Budget, showed the Executive debated the budgets for a considerable period of time, extending debate time where necessary. In addition, alternative proposals from other parties (Opposition and Liberal Democrats) were submitted, before voting took place democratically and individual votes for the MTFP were recorded. The documentation presented to the Executive was considered sufficient, as it included the MTFP itself, as well as background information and an appendix to allow the decision to be informed. As such, we have witnessed a strong level of challenge and knowledgeable, objective discussions regarding financial and strategic decisions.

Understanding the governance and scrutiny arrangements put in place by the Authority around control and oversight of its subsidiaries

We gained an understanding of the oversight process for the seven Wokingham Borough Council subsidiaries and reviewed evidence of control and scrutiny procedures through review of meeting minutes and discussions with the client. Our work found that there appears to be sufficient oversight regarding the subsidiaries' board selection, which includes Authority members, ex-councillors and non-executive directors, and there are monthly board meetings which Authority officers and the CFO attend to ensure appropriate oversight. We noted the high number of Authority members on the boards of the subsidiaries and carried out work to assess any independence considerations (i.e. through Companies House searches of relevant individuals). We found no independence issues from this work.

The subsidiaries' audited annual accounts are also reviewed by the Authority and incorporated into the its annual accounts; as part of our audit opinion work, we have also sought assurance over the largest of the subsidiaries, Optalis. Review of meeting minutes reinforce our opinion that the Authority has effective oversight and scrutiny of its subsidiaries.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts for the year ended 31 March 2019 with the audited financial statements. Financial information in the Statement of Accounts for the year ended 31 March 2019 and published with the financial statements (in particular, the Council's Narrative Report) was consistent with the audited financial statements. We have no matters to report.

We also review the Annual Governance Statement (AGS) for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We have no matter to report.

Other powers and duties



We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any such issues.

Audit of Accounts – Notice of Public Rights

The public inspection period at Wokingham Borough Council covers the 30 working day period between 11 June 2019 and 22 July 2019. This is not in line with the Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015, which state that the 30 day public inspection period must include the first 10 working days of June (June 3 to June 14 2019). This 10 day period is common across all local government bodies. We are satisfied that the Council has made the statement of accounts available for the appropriate length of time.

This follows on from a related issue in 2017/18 when the Council failed to advertise the public inspection period. The Council should ensure that the requirements of the Accounts and Audit Regulations 2015 are followed in future years.

Other reporting issues

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, is specified by the National Audit Office.

We confirm that Wokingham Borough Council is under the threshold for full audit procedures. We submitted the Assurance Statement required for bodies which fall under the threshold confirming this was the case to the NAO in September 2019.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

General ledger data analytics

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk. We initially could not use the General Ledger analytics data because the Council extracted the data before the ledger was closed, and another £70 million was posted after the original data run. This rendered the original analytics tool unusable and we had to use the Council's system generated trial balance to extract out testing samples. By the time the data was re-run in mid-July, there was no efficiency in using the tool other than for assurance over data completeness.

Draft accounts presented for audit

The draft accounts presented for audit were missing group accounting information, the cashflow statement and the Annual Governance Statement. Significant adjustments were also made to Property, Plant and Equipment (PPE) balances before they were ready for audit. The Council should endeavour to ensure that the draft financial statements published in May are as complete as possible from the outset as this eases the pressure on both auditor and client officer time during the accounts audit.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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.

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. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

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.



35

08 Data Analytics



Use of Data Analytics in the Audit

► Data analytics – General Ledger and Payroll analysis

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

We initially could not use the General Ledger analytics data because the Council extracted the data before the ledger was closed, and another £70 million was posted after the original data run. This rendered the original analytics tool unusable and we had to use the Council's system generated trial balance to extract out testing samples. By the time the data was re-run in mid-July, there was no efficiency in using the tool.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



37

09

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 25 January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee 5 February 2020.

We confirm we have undertaken non-audit work outside the NAO Code requirements in relation to our work on 2018/19 Housing Benefits claim which was previously (up to 2017/18) completed under PSAA scoping, but is now a separately procured piece of work. We have adopted the necessary safeguards in our completion of this work.

Independence



Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

39

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have undertaken non-audit work outside the NAO Code requirements (see below). We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final Fee 2017/18	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2018/19
	£	£	£	£
Total Audit Fee – Code work	105,617	81,325	81,325	81,325
Scale fee variation	1,066*	0	n/a	Tbc***
Grant claims – Form MPF720A (Housing Benefits)	8,397**	n/a	n/a	n/a
40 Total	115,080	81,325	81,235	TBC***
Non-audit work – Form MPF720A (Housing Benefits). Locally agreed fee from 2018/19	0	14,990****		

* The scale fee variation of £1,066, in relation to work done in 2017/18, related to our review of the restated balances following a restructure of the Council's portfolios. This work is outside the scope covered by the scale fee. The fee variation has been agreed with management and approved by PSAA.

** The total includes a fee variation of £1,214, in relation to additional work carried out in 2017/18 over and above that undertaken in the year on which the scale fee was based (2015/16). The fee variation has been agreed with management and approved by PSAA.

*** We cannot state a final fee for 2018/19 because we have not yet finished the audit. We expect our extra work on the VFM risk to incur extra fee but this has yet to be discussed with management as we wanted to complete the remaining elements of the audit before agreeing a final position.

**** We will discuss with officers the final fee for our Housing Benefit assurance work, based on the level of 40+ required.



41

10

Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies	
 Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report	
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report	

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including: <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about [insert client name]’s ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report

43

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Council 	Audit results report
44 Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report and Audit results report
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit Planning Report Audit Results Report
Certification work	<ul style="list-style-type: none"> • Summary of certification work 	Certification Report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report
45 Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations]
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit results report/Annual Audit Letter
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> An overview of the type of work to be performed on the financial information of the components An update on the scope of the group audit 	Audit planning report/Audit results report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report

Management representation letter

Management Representation Letter

Ernst & Young LLP

Wessex House
19 Threefield Lane
Southampton
Hampshire
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Wokingham Borough Council ("the Council") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Wokingham Borough Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. **State rationale**

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Management representation letter

48

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistleblowers”) including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council’s financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council’s activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and the committees held through the year to the most recent meeting on the following date 5 February 2020.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the IAS19 pension fund liability, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

H. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the valuation of property, plant and equipment, IAS19 pension liability and PFI valuation estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

I. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Management representation letter

I confirm that this letter has been discussed and agreed by the Authority on 5 February 2020.

Name: Graham Ebers

Position: Deputy Chief Executive

Name:

Position: Chair of the Audit Committee

50

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

 ey.com

This page is intentionally left blank