

Wokingham Borough Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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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.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated 23 February 2017)" 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 Annual Audit Letter 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.



Executive Summary

Executive Summary

We are required to issue an annual audit letter to Wokingham Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council was below the specified audit threshold of £350 million. Therefore, we were not required to perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 26 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 27 September 2017.

In December 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Helen Thompson

Associate Partner
For and on behalf of Ernst & Young LLP

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Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 26 September 2017 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 9 February 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council was below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 September 2017.

Our detailed findings were reported to the 26 September Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;</p> <p>We reviewed accounting estimates for evidence of management bias;</p> <p>We evaluated the business rationale for any significant unusual transactions; and</p> <p>We evaluated the appropriateness of accounting policies against Code guidance and for changes from the prior period.</p>
<p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p>	<p>We did not identify any:</p> <ul style="list-style-type: none">• material weaknesses in controls or evidence of material management override;• instances of inappropriate judgements being applied; or• any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Other Financial Statement Risk	Conclusion
<p>Expenditure and Funding Analysis</p> <p>Amendments were made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.</p> <p>The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.</p> <p>The Code no longer requires statements or notes to be prepared in accordance with Service Reporting Code of Practice. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.</p> <p>This change in the Code required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made. In past years we have observed, and the Council has recognised, that the process for generating the financial statements from the ledger is complex. This change in reporting requirement could provide an opportunity to streamline this process which could reduce the time taken to produce the financial statements moving forward.</p>	<p>We reviewed the 'Expenditure and Funding Analysis', CIES and new notes to ensure disclosures are in line with the Code. The disclosures made were generally in line with the Code.</p> <p>We reviewed the working papers supporting the derivation of these figures, and how the ledger system was re-mapped to reflect the Council's organisational structure. We agreed the restated comparative figures back to the Council's supporting working papers and ledger.</p> <p>We had no matters to report.</p>

Other Financial Statement Risk	Conclusion
<p>Private Finance Initiative (PFI)</p> <p>The PFI Accounting Models produce a number of material balances within the financial statements.</p> <p>We planned to undertake a number of specific procedures to provide assurance that the accounting models produce materially correct information in the Council's accounts.</p>	<p>We:</p> <ul style="list-style-type: none">▶ Used one of EY's PFI experts to review the accounting model and contract on which entries in the financial statements are based. The PFI expert used an internally created tool to simulate the entries within the model▶ Reviewed the accounting entries in the financial statements to ensure they agree to the accounting model. <p>We did not identify any material differences between the figures posted from the PFI model and the figures which were obtained from the internally generated model.</p>

Other Key Findings	Conclusion
<u>Pension disclosures:</u>	<p>We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate. Both PWC and our internal pension experts have noted issues with the discount rate being used by the external actuary Barnett Waddingham. We concluded that this could lead to unacceptable assumptions in future years. This is a national issue and relevant to all clients who use Barnett Waddingham.</p>
<u>Property valuations:</u>	<p>We undertook appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the valuer in relation to Wokingham Borough Council's property, plant and equipment focusing in particular on specialist assets which are valued on a depreciated replacement costs (DRC) basis as these valuations are often the most subjective and open to different interpretations.</p> <p>We asked our EY internal property valuation experts to assist us with providing assurance in this area. EY Property Valuations raised a number of questions of the internal valuer on key assumptions applied on DRC valuations. Key questions focused on 2 key areas: depreciation assumptions including useful life determination and depreciated replacement cost and basis. There were some non-material adjustments made as a result of this work.</p>

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £6.395 million (2015/16: £6.494 million), which is 2% of gross revenue expenditure reported in the accounts adjusted for any other items of expenditure which would be reported below the line.</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £0.0320 million (2015/16: £0.0325 million)</p>

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We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits.
- Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. We can confirm that there were no uncorrected mis-statements from the 2016/17 audit.



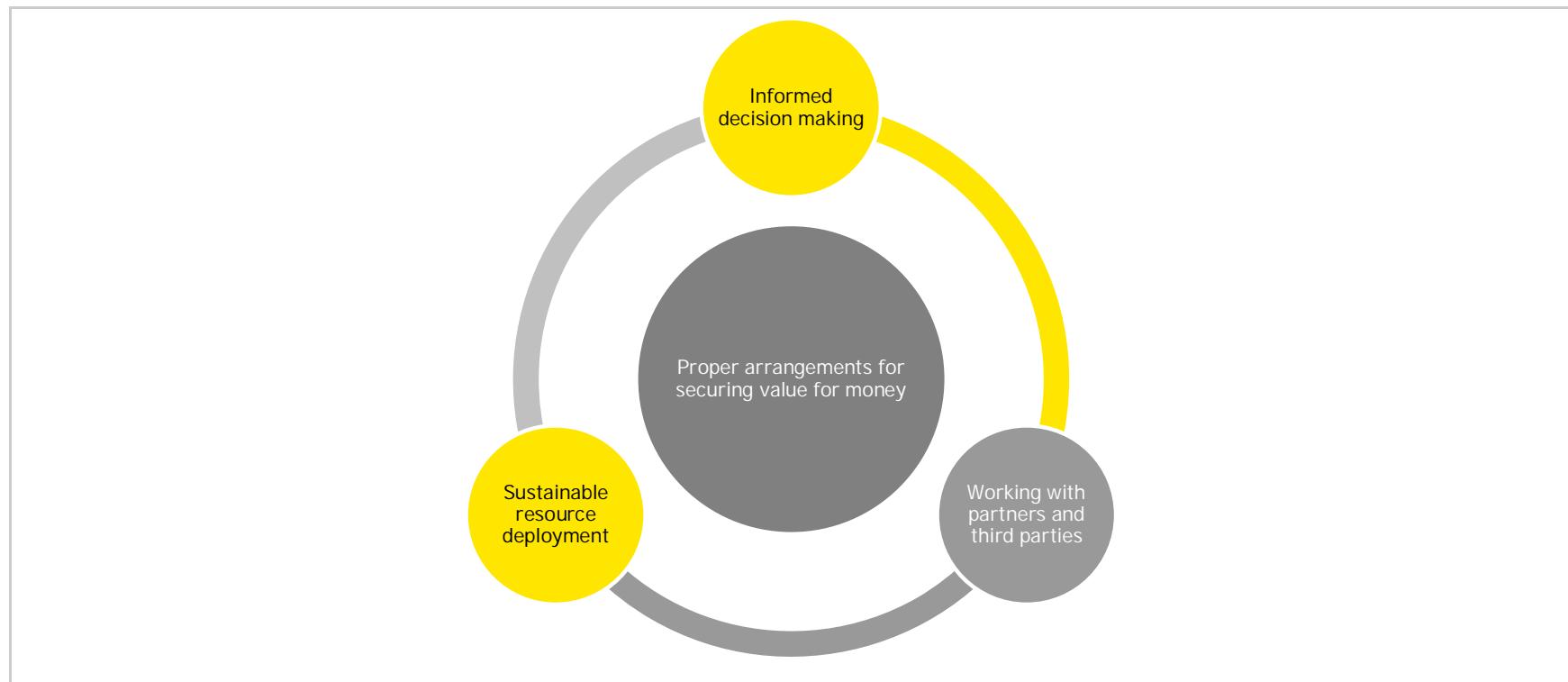
Value for Money

Value for Money

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.

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.



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

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 27th September 2017.

What were our findings?

Reductions in central government funding, coupled with demand lead pressures on services, mean that the Council is continuing to experience financial pressures. For example in 2016/17 Wokingham Borough Council's Revenue Support Grant was reduced by 50%. The Council is moving towards a future of financial sustainability and is currently engaged in an ambitious and extensive capital programme. The Council returned a small net underspend in 2016/17 of £55,000 against a net budget of £136 million.

We noted as part of our review of the financial statements that Wokingham Borough Council's financial sustainability in respect of Usable Reserves (General Fund and Earmarked Reserves) has improved in year from approximately £43 million as at end of March 2016 to £54 million as at end of 2017. In addition Short-term Investments and Cash and Cash equivalents accounted for £57 million. Again this is an improvement on the prior year with the prior year equivalent figure being approximately £39 million. Offsetting these assets is the overall borrowing position of £148 million. The Council is moving towards a future of seeking to achieve greater financial sustainability and is currently engaged in an ambitious and extensive capital programme. The borrowing position and detailed repayment schedules, including future revenue amounts from the investment, has been carefully considered. Given the scale of the investment this will continue to be an area of focus for us in future VFM planning.

As part of the changing circumstances in which many local government organisations now find themselves they are being asked to make do with less central government funding. In response many councils are having to take difficult decisions in respect of staffing levels and different ways of working. Given the size of the reductions as noted above Wokingham Borough Council is no exception. The Council has embarked on a significant change programme called 21st Century Council. Split into different phases the programme will change the way in which the Council operates with all departments subject to review and change. Phase 1 was implemented in the summer of 2017 with Phase 2 being introduced in the autumn of 2017. Given the nature of the change and the plans we will continue to monitor this area as part of our VFM planning in 2017/18. We will continue to seek regular updates on this area from senior officers.



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council was below the specified audit threshold of £350 million. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

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We completed this work and identified a small number of areas where further disclosure was required to reflect the position at the Council. The Council amended the annual governance statement to include these areas.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 26th September 2017. 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 regulatory and professional requirements.

Control Themes and Observations

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.

We have adopted a mainly substantive approach and have therefore not tested the operation of controls.

We noted as part of the audit that Wokingham Borough Council had not complied with the requirements of the local Audit and Accountability Act in respect of publicly advertising the audit during a common period. For 2016/17 the common period was 3 July to 14 July 2017. Due to an administrative oversight, the audit was not advertised during the appropriate period. However, once identified, the Council did ensure that the inspection period was appropriately advertised for a period of 30 working days.



Focused on your
future

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Area	Issue	Impact
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured • How the impairment of financial assets are calculated • Financial hedge accounting • The disclosure requirements for financial assets. <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Remeasure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>
<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council is has yet to commence work in this area due to the timing of implementation.</p>

Area	Issue	Impact
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council is has yet to commence work in this area due to the timing of implementation.</p>
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council will need to take a number of steps as outlined below:</p> <ul style="list-style-type: none"> • Critically review and amend the closedown process to achieve draft accounts production by 31 May for 2017/18 • Bring forward the commissioning and production of key externally provided information such as IAS 19 pension information and asset valuations • Provide training to departmental finance staff regarding the requirements and implications of earlier closedown • Re-order tasks from year-end to monthly/quarterly timing, reducing year-end pressure • Establish and agreed working materiality amounts with auditor

Area	Issue	Impact
		<p>As auditors, nationally we have:</p> <ul style="list-style-type: none">• Issued a thought piece on early closedown;• As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales;• Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017. <p>Locally we have and will continue to:</p> <ul style="list-style-type: none">• Together with the Council agree areas for early work which have in the past included testing of major income and expenditure streams at month 9, reviewing calculation and allocation of depreciation charges, discussing and agreeing material estimation procedures by March of each financial year;• Hold regular discussions through the year on the Council's proposals to bring forward the closedown timetable.

Appendix A

Audit Fees



Appendix A Audit Fees

Our proposed final fee for 2016/17 is greater than the scale fee set by the PSAA and reported in our 26th September 2017 Annual Results Report.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	107,596*	105,617	105,617	105,617
Total Audit Fee – Certification of claims and returns	TBC**	11,787	11,787	7,183

* As a result of additional work on Property, Plant and Equipment and the use of internal experts to conclude on that work we have charged an additional fee of £1,979. In line with the protocol in respect of any additional fees charged this will need to be approved by the PSAA before we can raise the invoice for payment.

** We are currently completing the work on the Housing Benefit certification and will report our findings from this work to the December 2017 Audit Committee.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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