

A photograph showing several people's hands and arms as they sit around a white table, looking at and pointing to various documents. One person is wearing a yellow long-sleeved shirt and a watch. Another person is wearing a white shirt. A smartphone is visible on the table. The scene is brightly lit, suggesting an office or meeting environment.

Wokingham Borough Council Audit progress report

Year ended 31 March 2019
June 2019

13

June 2019



Audit Committee Members
Wokingham Borough Council
Shute End
Wokingham, Berkshire, RG40 1BN

Dear Audit Committee Members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of our progress against the Council's 2018/19 audit plan, reported to you in February 2019. It also includes an additional significant risk relating to the value for money conclusion, identified after our initial audit planning was completed and reported. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

Enc

Contents

01 Progress Update



02 Value for Money update including additional VFM significant risk



03 Timetable for remainder of audit



15

Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)” issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Wokingham Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Wokingham Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Wokingham Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Progress Update



Progress on 2018/19 Audit

The following 'dashboard' summarises the progress of the 2018/19 audit after our interim audit visit. It seeks to provide the Audit Committee with an overview of the progress of the audit to date, and any issues arising.

Audit Area	Status	Details
<p>Interim substantive testing 17</p> <p>Testing has covered months 1-10 (unless stated otherwise). Work will be done during our year-end visit to top-up to month 12, and to cover the remaining areas of the financial statements.</p>	Completed	<ul style="list-style-type: none"> - Significant contracts testing - Accounting policies - PPE (Property, Plant, & Equipment) existence testing - PPE in-year additions testing - Walkthroughs of all material accounting systems - CIES income testing - Review of IFRS 9 and 15 impact assessments <p>There are no significant issues to draw to the attention of the Audit Committee at this stage.</p>
	In progress	<ul style="list-style-type: none"> - CIES Expenditure testing – we note that for the majority of selected testing samples, evidence has not yet been returned and this needs to be complete before we commence our final visit - Payroll – we have tested payroll starters and leavers for months 1 to 12 but are still awaiting the return of evidence. Evidence related to this testing, particularly in the case of schools staff, needs to be completed as soon as possible to ensure that queries do not extend into July <p>The above issues are not significant at the moment but we are highlighting them to the Committee because all interim testing needs to be cleared by the date of our final visit to assist in the smooth running of the accounts audit.</p>
Meetings with Management	Ongoing	<p>We have held regular meetings with management, to understand current issues, update on audit progress, and to plan for the year-end. We will maintain this approach going forward.</p>

Progress on 2018/19 Audit

The following 'dashboard' summarises the progress of the 2018/19 audit after our interim audit visit. It seeks to provide the Audit Committee with an overview of the progress of the audit to date, and any issues arising.

Audit Area	Status	Details
Misstatements due to fraud and error [Significant audit risk].	In progress	Our work in this area will be undertaken through the year end visit. No additional risks have been identified from the interim audit testing.
18 Risk of incorrect capitalisation of revenue expenditure [Significant audit risk].	In progress	We are focussing our 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. At this stage, we have tested fixed asset additions and set our substantive analytical review expectations for depreciation and Revenue Expenditure Funded from Capital Under Statute (REFCUS), with no indication of incorrect capitalisation.
Related party transactions	In progress	We request that the Council and Members ensure all related party disclosures are complete and available for audit by July 2019.
PFI liability accounting [inherent audit risk]	In progress	PFI is a complex areas and we have again commissioned a detailed review of the RE3 Waste PFI arrangements for Bracknell, Reading and Wokingham Councils by our PFI specialist. This will include a review of the assumptions used in the RE3 PFI accounting model, comment on local adjustments made to the model and review the planned entries and disclosures in the 2018/19 draft financial statements.

Progress on 2018/19 Audit

The following 'dashboard' summarises the progress of the 2018/19 audit after our interim audit visit. It seeks to provide the Audit Committee with an overview of the progress of the audit to date, and any issues arising.

Audit Area	Status	Details
Valuation of Property Plant and Equipment/Investment Property [inherent audit risk]	In progress	<p>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.</p> <p>Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet, and we will critically analysis and test these judgements, particularly around PPE (asset and liability) value estimations, and Revenue Expenditure Funded from Capital Under Statute (REFCUS).</p>
19 Pension Liability [inherent audit risk]	In progress	<p>The Local Authority 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. This is not available yet for 2018/19 so early work in this area is limited to setting our expectations for substantive analytical procedures.</p>
Group Accounts assessment	Completed	<p>At the interim stage of the audit we assessed the group components to calculate the size compared to the parent entity (the Council). For subsidiaries, we have used the total expenditure amounts from the Shareholder's report presented to the Executive on 28 March 2019 and compared it with the Council 2017/18 audited accounts expenditure amounts (which are the most reasonable amounts for comparison purposes). Based on the calculations performed, none of the subsidiaries represent over 15% of the group or over 15% of the Council's total expenditure. We therefore accept management's assessment that full group accounts are out of scope on the basis of non-materiality. We note that the largest component, Optalis Ltd, has forecast expenditure of £45,868 million, which represents 13.85% of the parent and 12.18% of the group.</p>



20

02

Value for Money update





Significant risk: Value for Money Conclusion

Following an external review of the Council's governance arrangements in November 2018, we have identified an additional significant Value for Money (VFM) risk that was not included in the Audit Planning Report as reported to the Audit Committee on 6 February 2019. That report stated that a significant VFM risk was likely but had not been crystallised at that point because the detail of the review required a more forensic analysis of the findings, and their potential impact on our VFM work. This has been discussed and agreed with Management, and is finalised as follows:

Informed decision making.

21

What is the risk?

During 2018 there have been significant changes within the top management team and political leadership at the Council. 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 Council financial documents. We are content that the Council'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.



Additional significant risk: Value for Money Conclusion

What will we do?

Our approach will focus on:

1. Reviewing and evaluating the governance arrangements around financial decision making established by the Council, to assess whether there are appropriate arrangements put in place to support informed decision making. We will do this through:

- review entity level controls focusing on the process of financial decision making;
- understand the reporting flow in the Council; and
- review arrangements around challenging senior management proposals and final decision making by the Council to establish whether the Council's decision-making arrangements are effective.

2. Reviewing 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 Council. We will:

- understand governance arrangements around production of the MTFP, including whether there is sufficient capacity and capability in the finance team preparing it; and
- evaluate information presented in the MTFP to the Council as to whether it is appropriate for informed decision making, including how the MTFP links into the Proposed Vision and Priorities Engagement Summary and the subsequent final Council Plan.

3. Reviewing minutes/videos of the Council meetings to determine whether key decisions were challenged appropriately, to understand the Council's response to overspending and how the critical financial and strategic decisions are implemented. We will do this by:

- selecting a number of key decisions made throughout the year that represent the Council's response to overspending in services and examine whether they were actioned, reported and monitored;
- reviewing documents given to the Council in support of the selected decisions;
- reviewing videos of the Council discussions around selected decisions to assess the extent to which the information presented was discussed/challenged; and
- conclude on the decisions made as to whether all necessary information was made available and whether there was sufficient challenge to inform the decisions taken.



Additional significant risk: Value for Money Conclusion

What will we do? Cont..

4. Understanding the governance and scrutiny arrangements put in place by the Council around control and oversight of its subsidiaries. We will:
 - understand and assess control and oversight process; and
 - review evidence of execution of control and scrutiny procedures (meeting minutes, reporting).



24

03

Timetable





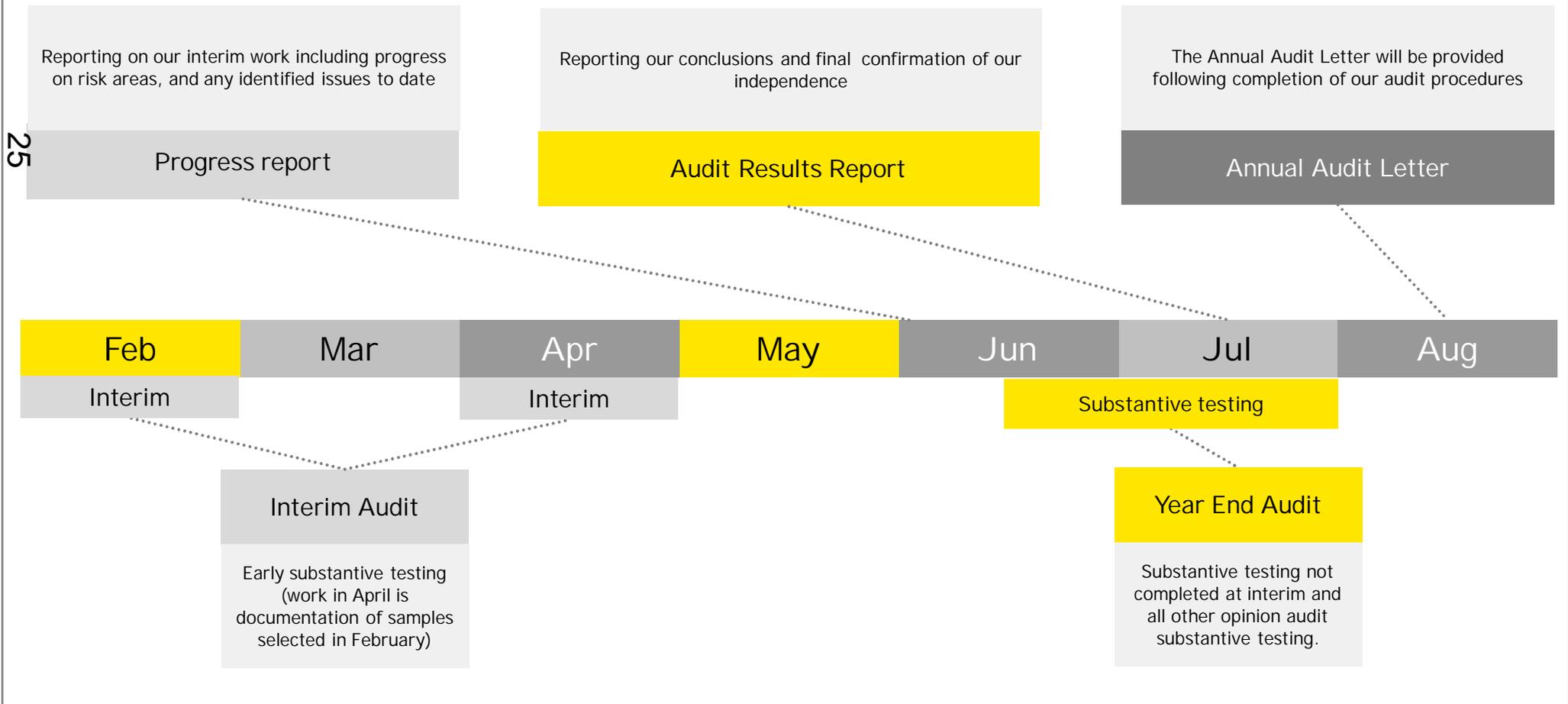
Audit timetable

Timetable of communication and deliverables

Timeline

Below is a timetable for the remainder of the 2018/19 audit and the deliverables we have agreed to provide to you in this part of the audit cycle for 2018/19.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



This page is intentionally left blank