

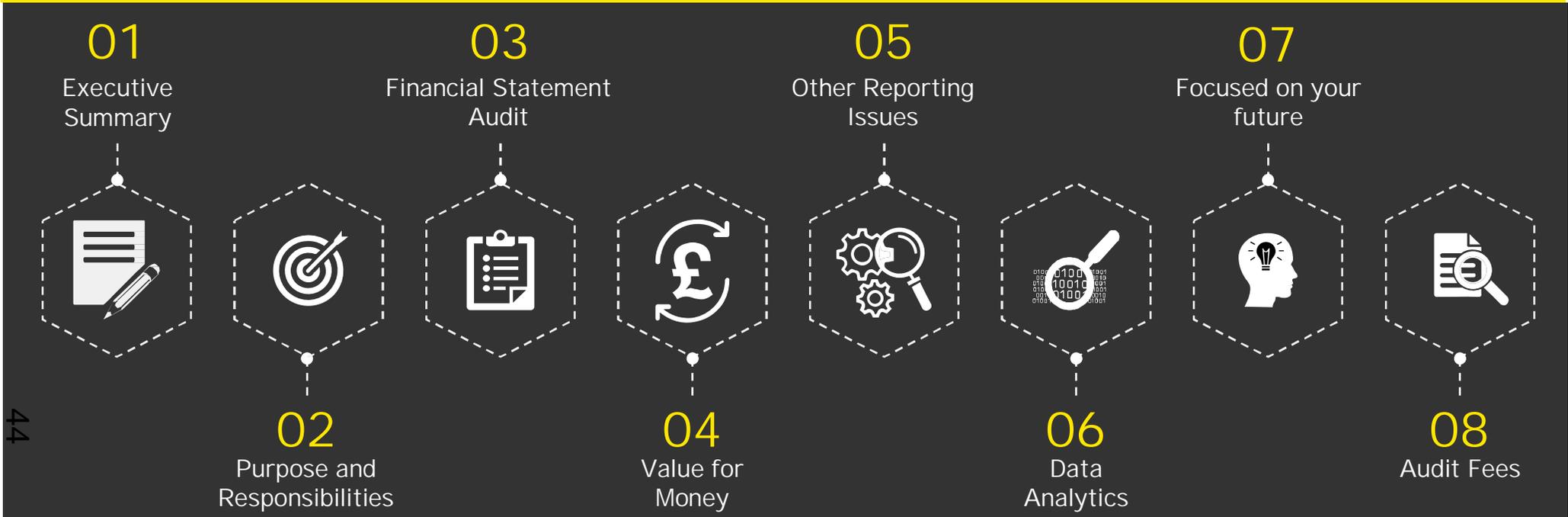
Wokingham Borough Council

Annual Audit Letter for the year
ended 31 March 2019

March 2020

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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.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 set 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 and Terms of Appointment. 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.



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01 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 2019.

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

Area of Work	Conclusion
Opinion on the Council's:	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ 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.

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).	We had no matters to report.



Executive Summary (cont'd)

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 13 March 2020.
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 13 March 2020

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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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02 Purpose and Responsibilities

Purpose and Responsibilities

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 2019/20 Audit Results Report to the 5 February 2020 Audit Committee, representing those charged with governance. We reissued our Report on 13 March 2020 at the conclusion of the audit. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work was undertaken in accordance with the Audit Plan that we issued on 15 January 2019, and the update issued in June 2019, and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

▶ Expressing an opinion:

- ▶ On the 2018/19 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 is below the specified audit threshold of £500 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 (AGS). In the AGS, 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.



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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 other guidance issued by the National Audit Office and issued an unqualified audit report on 13 March 2020.

Our detailed findings were reported to the 5 February Audit Committee, with an updated Audit Results Report issued on 13 March 2020.

Delay to the completion of the audit

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 carried out additional procedures to ensure we have the appropriate audit evidence.



Financial Statement Audit

Significant Risk

Misstatements due to fraud or error

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.

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 also focused specifically on capitalisation of expenditure as a potential area of manipulation, which is recorded as a separately identified significant risk.

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Conclusion

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:

- 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.

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.

Significant Risk	Conclusion
<p>Risk of incorrect capitalisation of revenue expenditure.</p> <p>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.</p> <p>From our risk assessment, we assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.</p> <p>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.</p> <p>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.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • 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 revenue expenditure funded from capital under statute (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. <p>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.</p> <p>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.</p>

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
<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 arose following the issue of the Audit Plan. 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.</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 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 comments from the review 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 revised its disclosures for the IAS19 liability, including the impact of the McCloud judgement. We agreed the revisions made to the financial statements by officers to the revised IAS19 report. We concluded that we could rely on the work of the Pension Fund actuary. We carried out additional procedures to ensure we had the appropriate audit evidence following receipt of the assurance letter from the Pension Fund auditor.</p> <p>We concluded the values and entries from the actuarial report were materially correct within the Authority's financial statements.</p>

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
<p>Valuation of Property Plant and Equipment/Investment Property</p> <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. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet</p>	<p>We:</p> <ul style="list-style-type: none"> • 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. <p>There were no issues that needed to be brought to the attention of the Audit Committee.</p>
<p>Group accounts</p> <p>As part of our year end audit, we reviewed our preliminary scoping decisions which had been reported to the Audit Committee in June 2019. As a result, we concluded that:</p> <ul style="list-style-type: none"> • Optalis Ltd is a full scope audit; • Berry Brook Homes Ltd is a specific scope audit; and • Wokingham Housing Ltd is a review scope audit. <p>We therefore sought assurances from the component auditor and carried out appropriate audit procedures under ISA600 to support our audit opinion.</p>	<p>For Optalis Ltd and Berry Brook Homes Ltd, we obtained copies of the working papers to support material balances and reviewed to ensure they provided us with sufficient assurance over the consolidated balances.</p> <p>For Wokingham Housing Ltd, we undertook a high level review of consolidated balances to ensure they were in line with our expectations given the balances were not material.</p> <p>For all three entities, we obtained copies of the final signed financial statements and audit opinions, the letters of management representation and the reports to those charged with governance. We also obtained a number of confirmations and assurances from the auditor of the three entities to ensure they are appropriately qualified to complete the work, to confirm their independence and to confirm their findings.</p> <p>Finally, we reviewed the consolidation exercise to ensure inter-company balances were appropriately removed and the group financial statements had been properly consolidated.</p>

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Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
<p>PFI accounting</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Our PFI specialist:</p> <ul style="list-style-type: none">• 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. <p>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.</p>
<p>IFRS 9 financial instruments</p> <p>This new accounting standard is 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; and• The disclosure requirements for financial assets. <p>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.</p>	<p>We:</p> <ul style="list-style-type: none">• 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. <p>We concluded that the Council's disclosures were in line with Code requirements.</p>

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
<p data-bbox="91 363 981 395">IFRS 15 Revenue from contracts with customers</p> <p data-bbox="91 411 981 571">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.</p> <p data-bbox="91 587 981 715">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.</p> <p data-bbox="91 730 981 890">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.</p>	<p data-bbox="987 363 2145 395">We:</p> <ul data-bbox="987 411 2145 730" style="list-style-type: none"><li data-bbox="987 411 2145 507">• 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;<li data-bbox="987 523 2145 555">• Considered application to the Council's revenue streams; and<li data-bbox="987 571 2145 730">• 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.

Financial Statement Audit (cont'd)

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 updated our planning materiality assessment using the draft financial statements and also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services, we 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. These figures did not require updating once the final audited statements were received.</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	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.313m.

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: we apply no materiality threshold to these balances given their inherent sensitivity and public interest.
- Related party transactions: we apply no materiality threshold to these balances given their inherent sensitivity and public interest.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

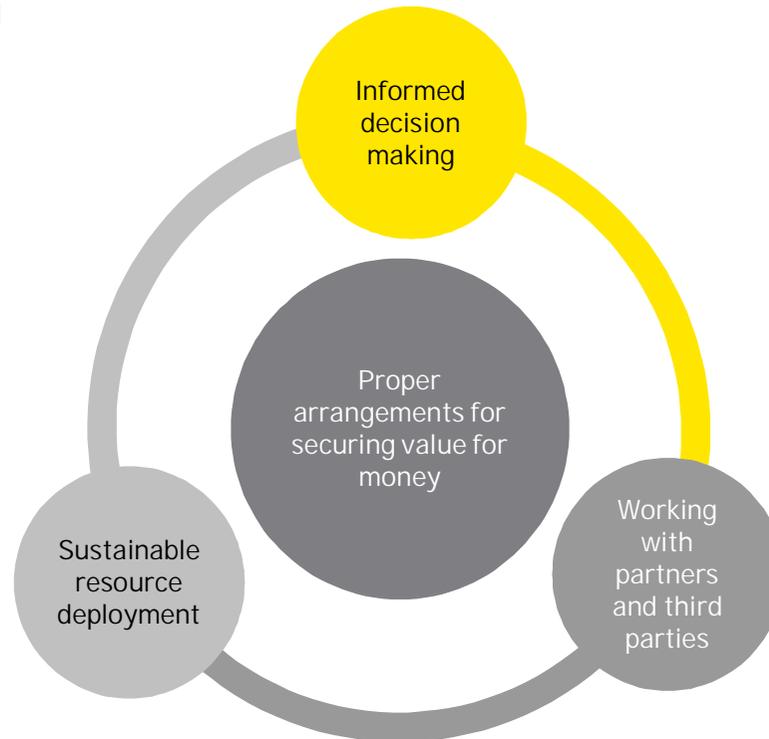


04 Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in 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.



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We did not identify any significant risks in our Audit Planning Report, but subsequently raised a risk which was reported to the Audit Committee, through our Audit Progress Report, on 5 June 2019. The table below presents our findings in response to this risk.

We performed the appropriate procedures and we did not identify any significant weaknesses in the Council's arrangements.

Value for Money (cont'd)

Significant Risk	Conclusion
<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. 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>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 was observed in our final accounts audit where expenditure samples from our interim visit were still outstanding in July.</p>

We issued an unqualified value for money conclusion on 13 March 2020.



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Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

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

The Council is below the specified audit threshold of £500 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.

We completed this work and did not identify any areas of concern.

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 2018/19 financial statements from members 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.

Other Reporting Issues (cont'd)

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 13 March 2020. 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

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

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.

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. Not having the general ledger fully agreed to the trial balance at the commencement of the audit meant that maintaining a log of ledger adjustments was difficult, and this was particularly the case when trying to agree the final version of the financial statements to the trial balance. The Authority 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 time during the accounts audit. Once submitted for audit, adjustments to the ledger should only then occur as a result of agreed audit amendments.

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.



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06 Data Analytics

Use of Data Analytics in the Audit

[Data analytics – Area of the Financial Statements e.g., revenue recognition]

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.



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07 Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It had been proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>In response to the developing COVID-19 emergency situation, CIPFA has been working directly with Government departments in helping to support the sector. As a consequence, the Financial Reporting Advisory Board (FRAB) recently proposed revisions to the financial reporting requirements for 2019/20 and these were considered by the CIPFA/LASAAC Local Authority Code Board in late March. It was agreed to defer the implementation of IFRS 16 Leases for one year (so an effective date of 1 April 2021) in-line with the FRAB's proposals for Central Government.</p>	<p>CIPFA/LASAAC will need to consider the impact of this deferral on the 2020/21 Code and also on the consultation process for 2021/22.</p> <p>However, what remains clear is that the Council needs to undertake a detailed exercise to identify all leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> - new definitions of assets, liabilities, income and expenses - updates for the inclusion of the recognition process and criteria and new provisions on derecognition - enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



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Audit Fees

Audit Fees

Our fee for 2018/19 is in line with the scale fee set by the PSAA but also includes scale fee variations as detailed below.

Description	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
Total Audit Fee – Scale fee variation	1,066*	0	n/a	16,600***
Total Audit Fee	106,683	81,235	81,235	97,925***
Non-audit work – Claims and returns	8,397**	20,490****	n/a	tbc

- * 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 was 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.
- *** This is the scale fee variation for extra work involved in gaining assurance over the VFM significant risk, the additional work associated with the IAS19 disclosures, PFI specialist review, and the work incurred due to delays and errors in the initial set of financial statements. This has been agreed with management on 28 April 2020, and is now subject to approval by PSAA.
- **** This is based on the engagement letter value cost of £14,990, plus extra work required to complete mandated 40+ testing. This has yet to be agreed with management.

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