Wokingham Borough Council
Audit results report

Year ended 31 March 2020

March 2021

Agenda Item 55.

EY
Building a better working world

18 March 2021

Wokingham Borough Council
Civic Offices,
Shute End,
Wokingham RG40 1BN

Dear Committee Members

We are pleased to attach our Audit Results Report in relation to the audit of the Wokingham Borough Council for 2019/20. This report is an update to the report published on 19 February 2021. The most significant changes are:

- Executive Summary: various sections updated;
- P15: updated findings in relation to the risk associated with the valuation of land and buildings – property, plant and equipment and investment properties;
- P18: current status of our work on the pension net liability valuation;
- P20: current status of our work around going concern;
- P29/30: summary of adjusted and unadjusted errors.

At the date of publishing this report, our audit is nearing completion. However, audit completion is dependent on the receipt of the final assurance letter from the auditor of the Berkshire Pension Fund. We also note that whilst we have agreed the adjustments to the financial statements, at the time of issue, we are still to complete our final checks that all adjustments have been correctly processed. This report is intended solely for the use of the Audit Committee, other members of the Authority, 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.

Yours faithfully

Helen Thompson
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

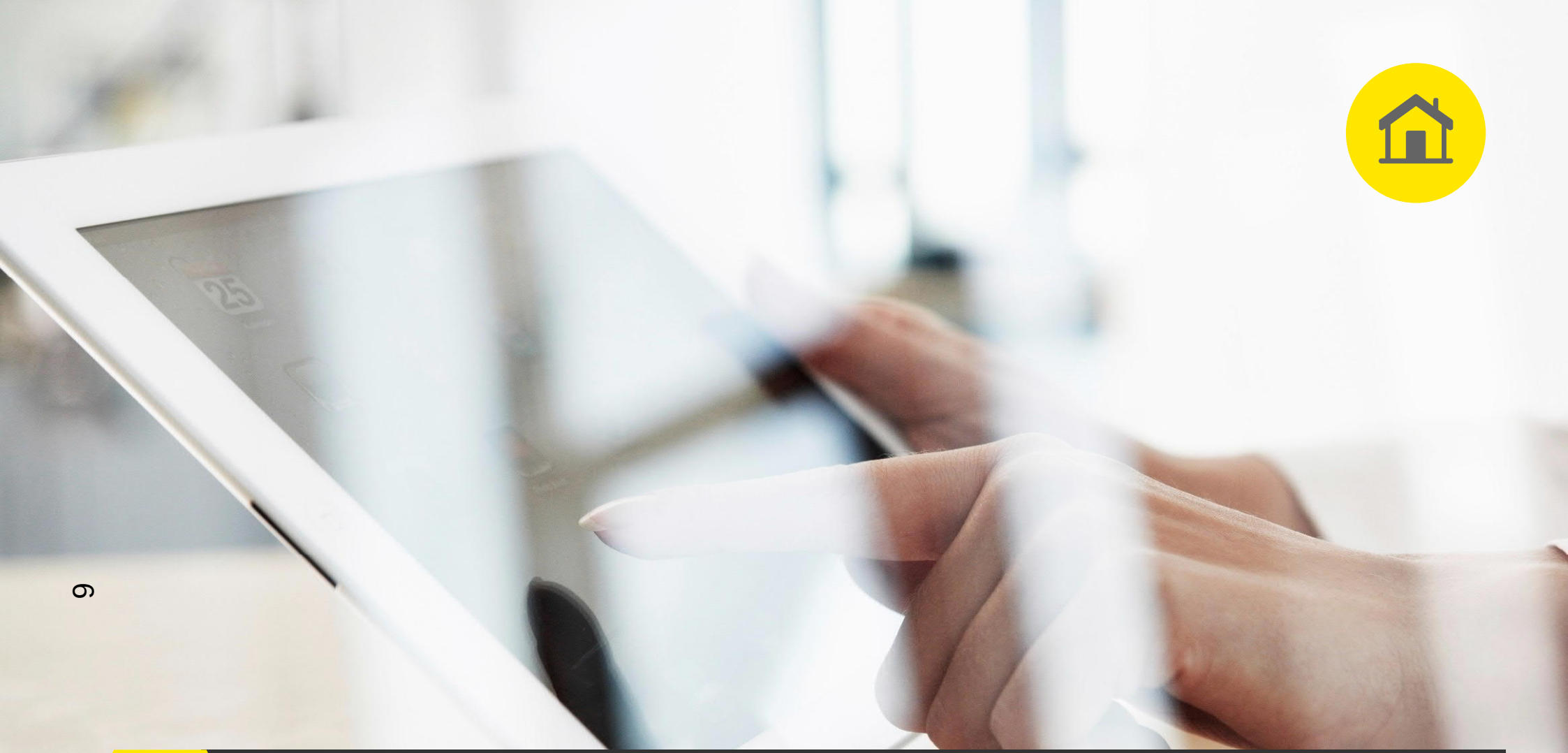
Contents

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.psaa.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. 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 Hywel Ball, 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.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented to the Audit Committee meeting in June 2020, 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 to reporting timescales

As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, were published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- Valuation of Property Plant and Equipment (Land and Buildings) and Investment Property - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of land and building and investment property.
- Disclosures on Going Concern – Financial plans for 2020/21 and medium term financial plans required revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance.
- Events after the balance sheet date – We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic might need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Authority.

Changes to the scope of our audit as a result of Covid-19

- There have been no other changes to the scope of our audit as a result of Covid-19.

Changes in materiality.

We updated our planning materiality assessment using the draft financial statements and also reconsidered our risk assessment. Based on our 2% materiality measure of gross expenditure on provision of services, we updated our overall materiality assessment to £6.665 million (£6.353m in the Audit Planning Report). This results in updated performance materiality, at 75% of overall materiality, of £4.999 million (£4.764 million in the Audit Planning Report), and an updated threshold for reporting misstatements of £333k (£318k in the Audit Planning Report).

Executive Summary

Scope update (continued)

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. Our work is not yet complete in this regard as we require assurance up until the date of our audit opinion.

Status of the audit

We are in the process of completing our audit of Wokingham Borough Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our audit planning report.

Key outstanding areas are:

- Pension fund testing on the IAS19 assurances provided by the Pension Fund auditor;
- Completion of the consultation process in relation to the Authority's disclosures on going concern;
- Completion of engagement manager and partner review of the audit work papers where work is not yet completed;
- Final review of the revised statement of accounts with agreed amendments;
- Completion of our subsequent events review;
- Receipt of the signed financial statements and letter of representation once all outstanding issues have been resolved.

Subject to satisfactory completion of those matters, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

We expect to issue the audit certificate at the same time as the audit opinion.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified the 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 2) of this report.

Significant risk: Misstatements due to fraud or error

We have not identified any evidence that management has overridden controls in order to prepare fraudulent financial statement balances or postings within the financial statements from the work completed.

Significant risk: Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure

We have not identified any evidence of manipulation of expenditure through incorrect capitalisation of revenue expenditure.

Significant risk: Valuation of land and buildings – Property, Plant & Equipment and Investment Properties

We employed the use of our own expert to support the work in relation to the valuation of land, buildings and investment properties, and to assess the impact of the material uncertainty issued by the Authority's valuer in their valuation report due to the impact of Covid-19. Our detailed work is largely complete: we have agreed the majority of the changes required to the valuations, but we need to confirm that all required changes have been processed in the fixed asset register and the statement of accounts. Further details are included in Sections 2 and 4 of this report .

Significant risk: Pension liability valuation

Our work is ongoing. We have agreed the accounting entries associated with the Authority's pension liability valuation and assessed the work of the Authority's actuary, Barnett Waddingham. However, we have not yet received the final assurance letter from the auditor of Berkshire Pension Fund.

Area of audit focus: Going concern – Compliance with ISA 570

Our work is ongoing. Management has provided a revised disclosure, and supporting documentation, including a cash flow forecast to 31 March 2022. We are waiting for a further update to the cashflow to cover the period April/May 2022. We expect to have submitted our conclusions into our formal internal consultation process before the Committee.

Area of audit focus: PFI Accounting

We reviewed the PFI entries and disclosures in the Authority's accounts and concluded they are appropriately reported.

Area of audit focus: Group accounting

Our work is ongoing. We are currently reviewing the requested amendments on the Group Account consolidation and the Group disclosures.

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 Committee.

Executive Summary

Audit differences

If we identify any audit differences, we either ask for them to be corrected or a rationale given as to why they are not corrected, which is approved by the Audit Committee and included in the Letter of Representation. If applicable, we set out the aggregated impact of unadjusted audit differences and whether we agree with management's assessment that the impact is not material.

There is one unadjusted judgemental difference which we set out in more detail in Section 4 Audit Differences.

We also identified a number of significant amendments from our work to date, the most significant of which relate to the valuation of land and buildings. Details can be found in Section 4 Audit Differences.

10

Value for money

Our work in relation to the value for money conclusion is complete. We raised the following two significant risks within our audit planning report in relation to the Authority's ability to deploy resources in a sustainable manner.

- Commercialisation and the purchase of investment properties
- Effectiveness of the Authority's governance and risk management framework

We were satisfied that we have no matters to report in respect of the Authority's value for money conclusion. Our detailed findings are set out in section 5 of this report.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement (AGS) for consistency with our knowledge of the Authority. We have suggested an update to the AGS, as set out on page 38 of this report.

In terms of the Whole of Government Accounts, we have completed our work. The Authority is below the threshold for full assurance procedures and we have no other matters to report. Our findings are set out in section 6 of this report.

Control observations

We have adopted a fully substantive approach, so we have not tested the operation of controls. During our substantive testing 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 and which is unknown to you.

However, we have reported on a number of control observations in Section 7 of this report.

Independence

We have one independence issue to bring to the attention of the Committee. A previous manager on the audit is an approved foster carer for the Authority. We have concluded that the nature the role does not compromise the firm's integrity, objectivity or independence. Further details are included in Section 9 within our update on Independence.

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 did we do?

In response to this risk, we:

- identified fraud risks during the planning stages, which reflect the significant fraud risk recognised in this report (the risk of incorrect capitalisation of expenditure).
- inquired of management about risks of fraud and the controls put in place to address those risks.
- understood 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.
- determined an appropriate strategy to address those identified risks of fraud which is reflected in the significant risks documented on this file.
- performing mandatory procedures regardless of specifically identified fraud risks, including:
  - testing journals at year-end to ensure there are no unexpected or unusual postings. This included searching for inappropriate journals posted by senior officers; journals with certain narrative descriptions which may allude to override; journals that do not balance to £Nil; and journals relating to our specific risk of management override (see next page). We were satisfied that those journals tested did not contain evidence of management override.
  - undertaking a detailed review of accounting estimates for evidence of bias (such as the valuation of land, buildings and investment property) and substantively testing unusual or unexpected transactions. No evidence of override was identified, and no unusual transaction have been identified from work completed to date.

What judgements are we focused on?

We focused on aspects of the financial statements which are open to estimation and judgment, which would facilitate management overriding controls:

- Journal entries subject to specific narrative descriptors, posted at certain times of the financial year or by certain individuals, and journals which exceed certain values;
- Material accounting estimates, such as the valuation of property, plant and equipment and investment property; and
- Unusual transactions anywhere in the financial statements.

What are our conclusions?

Our audit work has not identified any material issues, inappropriate judgements or unusual transactions which indicated that there had been any misreporting of the Authority's financial position, or that management had overridden control.

We have completed our journals testing. We are satisfied that journal entries had been posted properly and for genuine business reasons.

We have reviewed material estimates, such as the valuation of land and buildings and investment properties. Our work in these areas has resulted in amendment to the financial statements, but no indication of fraud was identified.

There were no unusual transactions identified.

Significant risk

Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure

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.

We believe the risk of manipulation is most likely to manifest in the incorrect capitalisation of revenue expenditure through either inappropriate additions to Property, Plant and Equipment (PPE) and Investment Property (IP) or incorrect classification of expenditure as Revenue Expenditure Funded from Capital Under Statute (REFCUS), as there is an incentive to reduce expenditure which is funded from Council Tax.

What judgements are we focused on?

We focused on the Authority's judgements to classify expenditure as either revenue or capital in nature. We tested a sample of items to confirm that the Authority's judgement was supported by sufficient evidence and was genuinely capital in nature.

What did we do?

In response to this risk, we:

- Tested a sample of PPE and IP additions to ensure that the expenditure incurred and capitalised is clearly capital in nature and that the transaction was supported by sufficient evidence to verify its value and the period it related to.
- Identified and tested significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year. This provided assurance that the transactions were adequate, supported by evidence and valid.
- Tested a sample of REFCUS, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. As with PPE additions, we also ensured these items were supported by sufficient evidence to verify the value and the period it related to.

Areas of Audit Focus

Significant risk

What are our findings?

Based on the work completed:

- we are satisfied that the PPE and IP transactions tested were supported by evidence which confirmed the valuation, nature of the expenditure, period to which it related to and confirmed that it was appropriately capitalised.
- our review of journal items provided assurance that the transactions posted were adequate, supported by evidence and valid.

We note the following issues identified from our work in this area:

REFCUS

- The Authority's draft accounts recorded a material REFCUS balance of £9.7 million (at Note 27). This included £6.7 million paid by the Authority to one of its subsidiaries, Berry Brook Homes, for a lease premium for its Peach Place affordable housing scheme. The grant paid to Berry Brook Homes would appear to meet the REFCUS criteria. However, the lease premium is for an asset owned by the Authority and therefore the treatment as REFCUS was not compliant with the CIPFA Code. Officers have agreed to amend the accounts and reclassify this as a revenue grant.

Flexible Use of Capital Receipts

- We challenged the Authority's use of £1.3 million of capital receipts on revenue expenditure for staff salaries for people working on the Authority's 21st Century Transformation Project as normally salary expenditure for officers would be a service revenue expense. However, we agreed that the capitalisation of these salaries was appropriate for this "invest to save" project in line with the guidance on the flexible use of capital receipts to generate service efficiencies.
- The legislation and guidance for use of these flexibilities requires that the strategy for the flexible use of capital receipts should be approved in advance. The Authority included details of the transformation projects in the 2019/20 Medium Term Financial Plan; and the flexible use of capital receipts formed part of the agreement to the four-year financial settlement with MHCLG. For completeness, officers agreed the use of the £1.3 million of capital receipts used under this initiative would be reported retrospectively in the 2021/22 Capital Strategy. This was approved at the February 2021 Council meeting.

What are our conclusions?

In terms of our significant risk of "Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure", following the adjustment noted above, we are satisfied that the Authority's judgements on the classification of expenditure as either revenue or capital in nature is appropriate and supported by sufficient evidence.

Areas of Audit Focus

Significant risk

Valuation of Land and Buildings – Property, Plant and Equipment and Investment Properties

What is the risk?

The nature, complexity and size of the Authority's asset base means the valuation of land, buildings and investment property represents a significant risk. The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represents two significant balances, at £1.081 billion and £34.2 million respectively, in the Authority's accounts as at 31 March 2020 and are subject to valuation changes, impairment reviews and depreciation charges.

The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements. We focused on those assumptions that directly impact the valuation of these assets – such as the use of information based on areas of the economy under stress (such as retail), location factors, useful lives and estimation of year on year valuation movements. In light of the market volatility brought about by Covid-19, and the inclusion of a material uncertainty paragraph in the external valuer's report we have determined that the valuation of land, buildings, dwellings and investment properties should be treated as a significant risk.

What judgements are we focused on?

We focused on those assumptions that directly impact the valuation of these assets – such as the use of information based on areas of the economy under stress (such as retail), location factors, useful lives and estimation of year on year valuation movements.

What did we do?

In response to this risk, we planned to undertake the following procedures:

- Challenged the assumptions used by the Authority's valuer by reference to external evidence and our valuation specialists. This included considering significant or unusual movements in valuation and investments in areas of the economy under stress, such as retail. The work of our EY valuation specialist was extended, as set out on the next page, to consider also the material uncertainty disclosed by the Authority's valuer's in their valuation report to the Authority which arose due to Covid-19.
- Considered the work performed by the Authority's internal valuer and confirmed that the scope of the work performed is adequate, they had the appropriate professional capabilities to complete the work and the results of their work is in line with our expectations.
- Sample tested key asset information used by the valuer in performing their valuation (e.g. building areas to support valuations based on price per square metre).
- Confirmed that the valuation was undertaken to ensure all assets required to be valued in line with the Authority's five year rolling programme had been completed, and that all investment property had been revalued in year as required by the Code.

Significant risk

What did we do? (cont)

- Assessed those assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; and
- Tested the accounting entries posted via journal to ensure they have been correctly processed in the financial statements.

We also undertook the following audit procedures in response to the Covid-19 pandemic:

- considered the Authority's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions.
- ensured the appropriate disclosure has been made in the accounts concerning the material uncertainty included in the Authority's valuation report which arose due to the Covid-19 pandemic.

What are our findings?

We completed our planned procedures as set out above and on the preceding page. We have the following findings to report.

Assumptions used by the valuer

- In undertaking the testing of our selected sample, we identified deficiencies in the evidence for some assets underpinning the assumptions used by the valuer in relation to assets valued at depreciated replacement cost (DRC). As a consequence, the Estates team undertook an exercise to corroborate and correct, where necessary, the supporting evidence for the valuations. This has contributed to the total adjustment to the downward valuation of other land and buildings of some £45m to £50m.

Assets not valued at 31 March 2020

- There were four assets valued at 31 March 2020 as part of the property investment group valuation exercise. However, these had not been updated in the fixed asset register or the statement of accounts. This forms part of the total adjustment to the downward valuation of other land and buildings of some £45m to £50m.

- During 2019/20, there were material additions to the Peach Place development. However, those additions should be revalued to existing value in use, as required by the CIPFA Code. This is currently being reviewed by the Estates team and will be adjusted if required.

- In addition, there were significant transfers from assets under construction to other land and buildings, these were transferred at cost. The CIPFA accounting code requires operational assets to be valued on either existing use value (where there is an active market) or depreciated replacement cost using the instant build approach where there is not active market. We discussed this with officers who stated that this is in line with the Authority's accounting policy whereby these assets are valued a year after transfer to operational assets. This policy is not included within the Statement of Accounting Policies in 2019/20, and it is not in line with the Code. The assets have now been revalued to reflect their existing value in use and this forms part of the total adjustment to other land and buildings of some £45m to £50m.

Significant risk

What are our findings?

Assets not valued at 31 March 2020 (cont)

There was no review of those assets not revalued as at 31 March 2020, in total some £222 million. We would expect management to review these assets to ensure the value is materially correct at the balance sheet date of 31 March 2020. The Estates team carried out a review of DRC assets; we reviewed this and undertook a further assessment of assets valued under existing use value. As a result of our challenges, the Estates team agreed to revalue three schools which had been valued at either 31 March 2016 or 31 March 2017, and make appropriate adjustments to the valuations within the financial statements. This forms part of the total downward adjustment to the valuation of other land and buildings of some £45m to £50m.

Council dwellings

- Included in the Council Dwelling valuation report were assets that had previously been derecognised, this resulted in an overstatement of the Council Dwellings shown the account.
- In addition, the shared ownership properties had been valued at 100% ownership, rather than the percentage owned by the Council.

Use of EY Real Estate

We asked our specialist to review 11 assets, selected from those assets revalued in 2019/20 within Land and Buildings and Investment Property. We challenged the valuation for four assets which we initially found to have a value outside of a reasonable range of valuations established by EYRE for each asset.

- Two assets, valued under depreciated replacement cost (DRC) methodology, were outside the reasonable range calculated by EYRE due to salvage values included in the obsolescence calculation and professional fees excluded from the obsolescence calculation. Following further discussions, the DRC valuations have been revised by the internal valuer to exclude the salvage value included within original calculations. In addition, the professional fees included in the DRC valuations have been included within the obsolescence calculations.
- One asset, an investment property, had been included in the accounts based upon an asset valuation as at 1 April 2019 and had not been reviewed as at 31 March 2020. Our valuer assessed a range between £10.25m and £10.8m, the value was included in the accounts at £12.1m. The Estates team agreed to review the valuation of the asset in light of our challenges and made a downward valuation adjustment of £1.42m. This brings the asset in line with our potential range.
- One asset, Carnival Pool Multi Storey Car Park: our specialist challenged a number of the assumptions underpinning the valuation of the car park at £11.7m. Following a number of discussions between our specialist and the Estates team, the asset was revalued to reflect some changes in the assumptions used around income and turnover. This reduced the valuation by £1.7m. This remains outside our range of £4.5m to £5.35m. We will report this as an unadjusted judgemental difference. See Section 4 – Audit Differences.

Areas of Audit Focus

Significant risk

What are our findings?

PPE and IP Valuation – Emphasis of Matter

Subject to consultation, we will include an Emphasis of Matter within our audit report to draw the attention of the reader of the accounts to the Authority's disclosure relating to the material uncertainty included in the valuer's report. The financial statements have been updated to include relevant disclosures within Notes 4: Major sources of estimation uncertainty, Note 24: PPE and Note 25: Other Non Current Assets of the financial statements. We note this is not a qualification of the audit opinion.

Adequacy of challenge of PPE and IP valuation

Whilst appreciating that valuations are a matter of professional judgement, management should critically appraise the information provided to valuers to ensure it is accurate and understood, assess the methods and assumptions used against the accepted accounting practices and challenge where potential anomalies arise. Management should then document their challenge of the significant estimates made by experts so they can satisfy themselves that the entries in the financial statements are reasonable.

Amendment to the cyclical PPE valuation programme

We understand that management are proposing to employ an external valuer to value the Authority's PPE assets for the 2020/21 financial statements as it does for its annual valuation of its investment properties. The intention will be that the Authority's internal valuer will provide an initial challenge of the external specialist's assumptions, and provide greater assurance to the finance team preparing the financial statements. We agree this will provide the opportunity for additional challenge as set out above. We also recommend the valuer values a proportion of all the Authority's asset types each year (rather than by category type every 5 years) so that the Authority has a benchmark for indexation should it need it.

What are our conclusions?

Subject to the finalisation of all agreed amendments to the valuations as set out above, we are satisfied that the valuations of land and buildings in property plant and equipment and investment property are not materially misstated.

Significant risk

Pension Net Liability Valuation

20

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Berkshire County Council Local Government Pension Scheme, administered by the Royal Borough of Windsor and Maidenhead (RBWM). At 31 March 2020 the pension fund deficit totalled £259.6m.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

In the prior year, the 'McCloud' judgement impacted the estimate and resulted in an amendment of the net pension liability. We anticipate this will again be a key assumption in estimating the pension liability. We would expect the Authority's actuary to be basing their assumptions taking into account the Authority's specific membership profile and how it has been impacted by the judgement. We also note that there may be further developments in this area, potentially again coming after the balance sheet date.

What judgements are we focused on?

We review the assurances over the information supplied to the actuary by the pension fund administrators, the work of the pension fund actuary and the accounting entries and disclosures in the Authority's financial statements.

What did we do?

In response to this risk, we planned to undertake the following procedures:

- assess 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 Public Sector Auditor Appointments for all local government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.
- liaise with the auditors of the Berkshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Wokingham Borough Council.

We have had ongoing discussions with the Pension Fund auditor to understand the timetable for their work; and we received a draft assurance letter at the end of January 2021. However, the letter indicated that their work was incomplete and therefore this did not provide us with the required assurance for our audit.

Our response to areas of audit focus

What are our findings?

Pension accounting entries and disclosures:

The Authority requested an updated IAS19 report from the Berkshire Pension Fund actuary following the identification of a downward valuation of about £31.5m in the value of the Pension Fund assets arising from Covid-19 and a lag in pricing of the Pension Fund's alternative investments as at 31 March 2020. The updated report also included a revised longevity insurance contract value as at 31 March 2020, based on updated member data, updated market conditions and updated premium schedule. This insurance contract value was significantly lower than was used in the previous accounting report and contributed to the increase in liability. We have reviewed the amended pension accounting entries and disclosures within the Authority's financial statements and concluded the increase of £7.775m in the total pension liability is appropriate.

IAS 19 assurances:

We reviewed the draft audit assurances received from the Berkshire Pension Fund auditors in late January 2021 and raised a number of queries on the work that has been carried out. We anticipate receiving the final letter on completion of the Royal Borough of Windsor and Maidenhead and Berkshire Pension Fund audits, expected to be late March 2021.

What are our conclusions?

In terms of our significant risk for the Pension Net Liability Valuation, there is outstanding work on the IAS19 assurances that we are seeking from the pension fund auditor for three of our clients who are admitted bodies for the Berkshire Pension Fund, one of which is Wokingham Borough Council.

Our response to areas of audit focus

Disclosures on Going Concern

22

What is the risk?

Going Concern Compliance with ISA 570: The revised standard increases the work we are required to perform when assessing whether the Authority is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

Covid-19: The Covid-19 pandemic has created a number of financial pressures throughout local government, creating financial stress in either, or a combination of, increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently no clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in chief financial officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1

Presentation of Financial Statements.

The auditor's report in respect of going concern covers a 12-month period from the date of the audit report, therefore the Authority's assessment will also need to cover this period.

What judgements are we focused on?

In light of the revised Going Concern standard and then unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we sought a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure.

Our response to areas of audit focus

What are our conclusions?
This work is ongoing We held a discussion with the Head of Finance to understand how the Authority concluded that the use of the going concern assumption was appropriate. Our work included discussion and detailed review of the Authority's updated medium term financial plans and cash flow forecasts, which form the basis of the Authority's consideration of the use of the going concern assumption. We reviewed your updated going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures. In doing this we considered the current and developing operating environment; liquidity (operational and funding); mitigating factors; management information; forecasting and sensitivities and stress testing. The draft accounts did not include a detailed disclosure on going concern. Officers have used the assessment of the impact of Covid-19 on the Authority's finances to draft a new going concern disclosure note. We have scrutinised the financial assessment, cashflow, liquidity and borrowing forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We reviewed and further challenged the revised going concern disclosure, which appears at Note 1 in the Statement of Accounting Policies (Section 11 within the Statement of Accounts), and are satisfied that it is an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis. We have considered the need to draw the attention of a reader of the accounts to the Council's updated disclosure through the inclusion of an emphasis of matter paragraph in our audit report. We have concluded this is not necessary, but this remains subject to our internal consultation process.

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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What we found
PFI Accounting PFI (Private Finance Initiative) is a complex area of accounting. This year, we followed up on our 2018/19 detailed review of the Waste Recycling Group RE3 arrangements, for the three councils involved, namely Wokingham, Bracknell Forest and Reading Borough Councils. Our work: ▪ included a review of the assumptions used in the Waste PFI accounting model; ▪ commented on local adjustments, made by the Authority, following the changes to the accounting model held by the host council, Reading Borough Council; ▪ reviewed the planned entries and disclosures for the Authority's 2019/20 accounts.	We have no issues to report as we found that the PFI entries and disclosures for the Authority's 2019/20 accounts are appropriate.
Group Accounting The Authority prepares group accounts which involves consolidating the financial statements of its following four subsidiaries; ▪ Optalis Holdings Ltd provides Adult Social Care Services; ▪ WBC Holdings (WBCH) Ltd provides social and affordable housing. WBCH also includes Wokingham Housing Ltd, Loddon Homes Ltd and Berry Brook Homes Ltd and These subsidiaries contain accounting entries and balances that can be considered material or significant to the group, and we classified these as either full or specific scope audits, as discussed in Appendix D. We requested that the auditors of these subsidiaries (Hazlewoods Ltd for Optalis and Haslers for WBCH Ltd) undertake a programme of work. We sought assurances from them to ensure the 2019/20 financial statements do not contain material misstatement which may arise within the consolidated financial statements. We also review whether the balances from the four subsidiaries have been properly consolidated into the Authority's financial statements.	Optalis We have reviewed the work carried out by Hazlewoods Ltd, and we have no issues to report . WBC Holdings Ltd We have reviewed the work carried out by Haslers Ltd and we have no issues to report Group Consolidation Officers are amending the group accounts so that the Authority and the subsidiaries' accounting policies are aligned. We have yet to receive the revised figures and disclosure notes.

03 Audit Report

Audit report

As set out in the Executive Summary, we are unable to conclude on the final form of our audit report until all procedures are completed, especially those relating to Going Concern disclosures. We may include an emphasis of matter relating to the Authority's Going Concern disclosures or other impacts of Covid-19 in addition to the form and content set out below. We have included a proposed emphasis of matter in relation to the valuation of property, plant and equipment and investment property. However, this remains subject to our internal consultation process.

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 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the Authority Comprehensive Income and Expenditure Statement, Group Comprehensive Income and Expenditure Statement, Authority and Group Movement in Reserves Statement, Authority and Group Balance Sheet, Authority and Group Cash Flow Statement and the related notes 1 to 47; Housing Revenue Account Income and Expenditure Statement, Movement on the HRA Statement and the related notes 1 to 13; the Collection Fund and the related notes 1 to 3; and the Authority and Group 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Wokingham Borough Council and Group as at 31 March 2020 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 2019/20.

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 Wokingham Borough Council and Group 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.

Emphasis of matter – Property, Plant and Equipment and Investment Property valuation

We draw attention to Note 4, Assumptions made about the future and other major sources of estimation uncertainty; Note 24, Property, plant and equipment; and Note 25, Other Non-Current Assets of the financial statements; which describe the valuation uncertainty the Authority is facing as a result of COVID-19 in relation to property valuations. Our opinion is not modified in respect of this matter.

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:

- Deputy Chief Executive (S151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

Audit report

Our opinion on the financial statements

• the Deputy Chief Executive (S151 Officer) 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 Statement of Accounts for the year ended 31 March 2020, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive (S151 Officer) 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.

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

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 April 2020, 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 2020.

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 Council;

• 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

Audit report

Our opinion on the financial statements

• 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 Deputy Chief Executive (S151 Officer)

As explained more fully in the Statement of the Responsibilities set out on page 13, the Deputy Chief Executive (S151 Officer) 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Deputy Chief Executive (S151 Officer) 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.

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 April 2020, as to whether Wokingham Borough Council 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 Wokingham Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Audit report

Our opinion on the financial statements

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, Wokingham Borough Council 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 Wokingham Borough Council and Wokingham Borough Council'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

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 £4.99m which have been corrected by management that were identified during the course of our audit.

Balance sheet

- BS and Note 24 - Land & building valuations: the final value of amendments is yet to be quantified. However, the impact will be a material downward valuation of other land and buildings.
- BS and Note 24 - Council Dwellings valuations: £7.24m downward revaluation due to Council Dwellings included in the revaluation report which have previously been disposed of and are no longer included in the Housing Revenue Account
- BS and Note 19 – Defined benefit pension schemes: an increase in the net pension liability of £7.775m
- BS and Note 36 - Investments: £5 million reclassification from Short Term to Long Term Investments

We also identified an adjustment in relation to £6.7 million of REFCUS expenditure which should be classified as revenue expenditure; the grant was for revenue purposes and therefore does not meet the criteria for REFCUS classification. The resulting entry impacts the movement in reserves between the General Fund and the Capital Adjustment Account.

There were a number of other amendments to the primary statements and notes to the accounts which have been corrected as a result of our audit but are below our reporting threshold

Amendments to disclosures

A number of other additions and amendments were also made to disclosures appearing in the financial statements as a result of our work.

Statement of accounting policies

Note 1 - Going Concern: revised narrative setting out the Authority’s Covid-19 going concern impact assessment.

Audit Differences

Summary of adjusted differences cont.

Amendments to disclosures (continued)
Notes to the accounts

- Note 4 - Assumptions made about the future and other major sources of estimation uncertainty, Note 24 Property Plant and Equipment, Note 25 Other Non Current Assets: additional narrative included in all three notes to reflect the material uncertainty caveat included in the valuer's reports arising from Covid-19.
- Note 5 – Adjustments between accounting and funding basis: amendments required to this note to reflect the incorrect REFCUS transaction of £6.7 million and the associated S106 grant previously charged to the Capital Adjustment Account
- Note 36 – Financial instruments: the disclosures have been updated to correct a combination of casting errors, entries not updated from the prior year and inconsistencies with other areas of accounts.

Collection Fund

- NDR income on the face of the collection fund statement incorrectly included the movement in the NDR appeals provision. The movement in the provision should be disclosed separately within the Collection Fund statement. Income amended to £72.775 million and the movement in the NDR appeals provision disclosed as £1.098 million.
- Note 1 - Income collectable from business rate payers: disclosure amended to correct the multiplier and the rateable value.

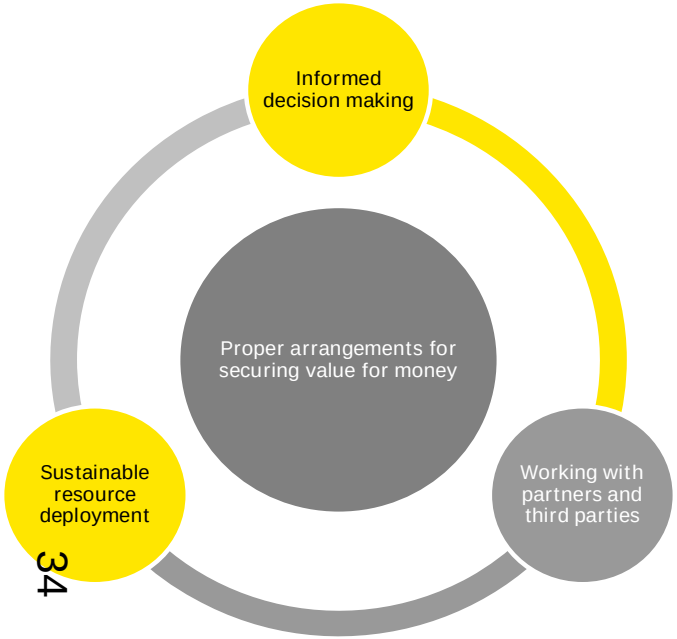
32

Summary of unadjusted differences

We challenged a number of the assumptions underpinning the valuation of the Carnival Pool car park, and the asset was revalued. The valuation falls outside our range by £4.615m, which results in a potential overstatement of the asset value. We understand that this will not be corrected in the accounts and we therefore report this as an unadjusted judgemental difference, based on a difference is assumptions used by our specialist and your own valuer. We have therefore sought and received management representations setting out the reasons for not making an adjustment.

05 Value for Money

Value for Money



34

Background

We are required to consider whether the Authority 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 2019/20 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 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.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020, the National Audit Office published an update to auditor guidance in relation to the 2019/20 value for money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 value for money assessment auditors should consider local authorities' response to Covid-19 only as far as it relates to the 2019/20 financial year. Only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 arrangements conclusion. No additional risk has been identified.

Overall conclusion

We identified the two following significant risks around these arrangements in respect of the Authority's ability to deploying resources in a sustainable manner.

- Commercialisation and the purchase of investment properties
- Effectiveness of the Authority's Governance and Risk Management Framework

Our work in relation to these risks are complete. We were satisfied that we have no matters to report in respect of the Authority's value for money conclusion. Our detailed findings are set out on the following pages.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What will we do?
Commercialisation and the purchase of investment properties		
The Authority has plans to develop some £85 million of significant commercial and investment opportunities to generate more income. The Authority's 21st Century transformational change programme is critical in enabling the Authority to delivering the level of savings needed for a sustainable financial future. Progress has been made against the target of £3.3 million of savings over 2019/20, which is in additional to some 22.8 million of savings delivered in the past four years. Paragraph 46 of the Statutory Guidance on Local Government Investments states that 'Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed'. However, para 47 of the Statutory Guidance also states that where a local authority has chosen to disregard the Prudential Code and the Guidance, additional explanations and disclosures will be required, including risk management. The Guidance also requires investments to have regard to Security, Liquidity and Yield in that order. Additionally, the Statutory Guidance on Minimum Revenue Provision (MRP) applying from 1 April 2019 includes the requirement to establish an MRP policies, and paragraph 45 states that the duty to make MRP extends to investment properties where their acquisition has been funded by an increase in borrowing or credit arrangements. The Guidance's commentary sets out this is to ensure Authority's provide for debt taken on to finance the asset over the period of that debt, with a maximum period of 50 years, consistent with the maximum period of PWLB borrowing.	Deploy resources in a sustainable manner	We will review: • the underlying rationale for the Authority's proposed investments and clarity on how this sits with the Authority's strategy and objectives; • legal powers and other advice obtained e.g. tax, investment decisions; • compliance with sections 46 and 47 of Statutory Guidance on Local Authority Investments and the Prudential Code; • the Authority's MRP policy; • clarity of governance arrangements for the Authority's decision making with regard to their investment property purchases; • recognition and reporting of risks in the corporate/strategic risk register. We will also consider the extent to which the Authority has demonstrated the key Prudential Code considerations: • existence of capital expenditure plans and a clear strategy that has regard to have regard to; service objectives, stewardship of assets, value for money, prudence and sustainability, affordability and practicality • demonstrating value for money in borrowing decisions • security of borrowed funds • extent of borrowing for investments and borrowing overall • the nature of the investment • risks involved, including falling capital values, borrowing costs, illiquidity of assets.

Value for Money

What are our findings?

The Authority's key strategic documents are well aligned, with both the Investment and Capital strategies showing planned increases to future investment. The Authority's investment portfolio is well developed, with a portfolio of £79m returning a net yield of 5.25%. The overall aims of the Authority with regards to commercialisation are consistent, with targets clearly outlined.

Property purchases are supported by clearly defined process, utilising desktop appraisals, Property Investment Group (PIG) review, purchase proposals, and cost & yield analysis. In addition to this, the Authority also has a Treasury Management Strategy. This strategy highlights the potential risks and market fluctuations, delivering insights in relation to any considerations that need to be made around external borrowing. The Authority obtained reputable external advice to generate this strategy, which facilitates more robust and accurate decision making. Additionally, external legal and property advice is sought throughout the purchase process to supplement the due diligence undertaken.

There is a clear governance structure in place for key decision making. The 2017 Investment Strategy provides the Deputy Chief Executive and S.151 Officer with the authority to make investment decisions, and he is supported by key individuals within the Authority, who all attend PIG meetings throughout the year. This ensures the involvement of the Leader, Executive Member for Finance & Housing, Executive Member for Business & Economic Development, Lead Specialist Finance & Deputy S.151 Officer, Assistant Director of Commercial Property and the Head of Investment in all decisions in respect of property acquisitions pursuant to the Investment Strategy, irrespective of value.

The acquisition of the Denmark St Car Park investment property was supported by detailed information, including desktop appraisals and purchase proposal documents. Detailed financial analysis was prepared by external parties providing the PIG with valuable information, allowing for informed decisions. We were also provided with internal workings by the Head of Investment, whose high level calculations to determine the yield were in line with the work done by external parties. The Denmark St property was returning a 4.69% net yield based on the November PIG statement, slightly below the average for the wider portfolio.

The Authority has a Treasury Management Strategy that assesses the requirements of the Prudential Code, and provides necessary information to address these requirements, ensuring compliance with the statutory investment guidance and the Code. This allows the Authority to comply with the guidance and make informed decisions on financial investments, which in turn allows for sustainable resource deployment. As above, the Authority obtained reputable external advice and insight in relation to the Treasury Management Strategy, allowing it to make any necessary considerations around external borrowing. Obtaining external advice allows for more robust and accurate decision making. The Authority is prudent and puts aside MRP of 10% of the value of the asset over 15 year to cover any reduction in value if needed.

We suggest that the Authority should consider formalising its process for analysing decisions to retain or sell properties, to manage the risk of any loss in market value of the investment. The Authority should also establish a risk register for the new Community Investment Group to review as part of its Terms of Reference and highlight and record any issues that need to be considered at a strategic level in the Corporate Risk Register.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What will we do?
Effectiveness of the Authority's Governance and Risk Management Framework		
The Authority's Local Code of Corporate Governance (LCCG) is a useful tool outlining the design of the Authority's Governance and Risk Management Framework. The Authority's Annual Governance Statement (AGS) states that governance is operating in accordance with its LCCG. However, from our audit planning work we have identified some areas where governance procedures could be more effective, the strengths and areas for improvement could be better disclosed in the 2019/20 Annual Governance Statement. In term of more effective governance, we found, to date, that: • the Risk Management Strategy and Guidance do not reflect the current role of the Audit Committee in risk management; • risk management may be better embedded if corporate risks are aligned to the delivery of the Authority's strategic objectives in the Council Delivery Plan; • the Authority's risk profile is high with 11 of 13 risks at high (8) or very high (3), which is contrary to the Authority's low risk targets in the Risk Register; • there are few clear actions documented on the Corporate Risk Register on how risk is to be effectively manged down to the lower targets. Adequate risk management is required for members and officers to take informed decisions. We will, therefore, review the effectiveness of the Authority's Risk Management Framework and how this may be further improved. The disclosures in the 2019/20 AGS could be improved so that the AGS better describes the effectiveness of the Authority's governance arrangements in year, any significant weaknesses and action plans for the resolution of prior year issues and issues going forward. The Authority should be disclosing how the Authority's Assurance Framework complies with its LCCG with a clearer statement on how the Authority is achieving its strategic objectives and addressing areas for improvement.	Informed decision making	Our approach will focus on: • review of the adequacy of the Authority's risk management arrangements; • compliance with the Authority's Local Code of Corporate Governance; • disclosures to be made in the Authority's 2019/20 Annual Governance Statement on the effectiveness of the Authority's Governance and Risk Management Framework.

Value for Money

What are our findings?

The Authority's 2019/20 Annual Governance Statement states that there has been "a renewed focus on organisational risks and are overseen by the Risk Management Strategy, Corporate Risk Register and Directorate / Service risk registers. ". There has been an improvement in the Authority's arrangements and it is commendable that a risk management champions group, comprising representatives from across the Authority, has been established in 2020/21 to help drive and co-ordinate the Authority's approach to risk management. However, risk management needs to be better embedded in the day to day business and reporting of the Authority as follows:

- The risks to the delivery of the Authority's strategic objectives, in the Community Vision and the Council Delivery Plan should be recorded on the Corporate Risk Register on a strategic objective by objective basis. Work is underway to develop a new service plan template for 2021/22 which will align directly to the Council Plan priorities and Key Performance Indicators (KPIs). We suggest that the Corporate Risk Register and underpinning service risk registers, as part of the new service planning process, are also aligned to these objectives. This will allow for the Authority's risk management arrangements to be integrated into the Authority's Performance Management Framework for a holistic view of the effectiveness of service delivery and reflect the Enterprise Risk Management approach that the Authority aspires to in its Risk Management Guidance.
- The Risk Management Policy & Guidance sets out the Authority's approach to risk appetite, however the Corporate Risk Register does not clearly record the Authority's residual risk (i.e. the actual risk after controls, clear mitigating actions and definite timescales have been applied) so it is difficult to see whether the Authority is operating within its risk tolerance. The Corporate Risk Register, on page 1, currently records (pre-mitigation) 5 Very High Risks, 9 High risks and 5 Medium risks which is a significant level of risk. The Corporate Risk Register does not record the "Risk Appetite" for each risk as suggested by the Authority's Risk Management Policy & Guidance (page 8).
- Embedding and developing the role of the Audit Committee in providing overall assurance to the Executive over the effectiveness of the Authority's Risk Management Framework arrangements rather than taking an active deep dive and scrutiny of risks in the Corporate Risk Register. The active deep dive and scrutiny of risks may be better covered through the work of the O&S Committee.
- The Audit Committee's work programme for the year should be revisited so that it covers all CIPFA audit committee best practice requirements, in particular an Audit Committee self-assessment of its effectiveness and the timely production of an annual report of its achievements relating to the financial year in question. The Audit Committee's 2019/20 Annual Report to Council, on 6 July 2020, reported on the adequacy of the assurance underpinning the 2018/19 Annual Governance Statement and the Head of Internal Audit Opinion for 2018/19 rather than those papers relating to 2019/20. This delay was, in part, due to the impact on timely reporting because of the pandemic. This should be rectified for the Audit Committee's 2020/21 Annual Report to Council in July 2021.
- The Authority would benefit from an overarching assurance framework which is a structured means of identifying and mapping the main sources of assurance, and co-ordinating them to best effect. The Authority could use this to effectively manage performance and risk through identifying and reporting on continuous improvement and areas where management need to focus their attention. A good assurance framework, if reported to the Audit Committee will provide wider assurance than controls, integrating financial, risk and performance measurements and independent assurance with value for money outcomes. It also underpins planning, performance management and risk management leading to a good understanding of how the Authority achieves its objectives and addresses areas for improvement.

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 accounts for the year 2019/20 with the audited financial statements.

- We concluded that financial information in the accounts for the year 2019/20 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

- We have reviewed the Authority's Annual Governance Statement (AGS) and concluded that is consistent with other information from our audit of the financial statements.
- We asked the Authority to clarify that its review of the effectiveness of the internal control and risk environment covers the activities of its subsidiaries, Optalis and Wokingham Holdings Ltd . This has been added to the final version of the AGS.
- We have recommended that the Council that the AGS could better reflect the governance issues around the highest risk issues identified in the corporate risk register in future years. The Assistant Director Governance has agreed to consider this for 2020/21.

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.

The National Audit Office (NAO) released the group audit instructions in relation to the Whole of Government Accounts in November 2020. These instructions confirm that for 2019/20, the Authority is below the threshold for which detailed audit procedures need to be completed.

We therefore expect to issue our audit certificate at the same time as our audit report.

Other reporting issues

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 Authority 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 issues.

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 Authority’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 representation 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.

We have the following comments overleaf:

Other reporting issues

Other matters (continued

Any significant difficulties encountered during the audit;

- The 2019/20 financial statements audit has taken longer than anticipated. We have reported our findings to date; and the outstanding issues which need to be resolved are summarised in Appendix C. We recognise this has been an very challenging year for the Authority and its finance team as they have been stretched beyond capacity in their response to Covid-19 issues.
- We worked flexibly around the Authority's finance team commitments since our first audit visit on 22 July which lasted five weeks. We paused the audit three times since then and have re-engaged, after agreed breaks, on 28 September for 3 weeks, 16 November for 3 weeks and 9 January for 6 weeks until 26th February. This extended audit time will impact on our audit fee which we discuss with officers following the completion of the audit.
- The auditors of the Berkshire Pension Fund sent us the Authority's IAS19 employee benefit local government Pension Fund assurances at the end of January. This work remains outstanding.

Expected modifications to the audit report;

- Prior to issuing our audit report, we will complete an internal consultation process which may result in the inclusion of an emphasis of matter paragraph in respect of the material valuation uncertainty related to the Authority's land, buildings and investment property. As previously noted in this report, we had extensive discussions with management in relation to going concern which resulted in increased disclosures within the financial statements.

We have nothing to report in respect of the remaining items.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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 Authority 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 Authority's financial statements, 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.

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

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

Adequacy of challenge of PPE and IP valuation

The number of adjustments to the accounts arising from the PPE valuation audit work is high. Whilst appreciating that valuations are a matter of professional judgement, management should critically appraise the information provided to valuers to ensure it is accurate and understood, assess the methods and assumptions used against the accepted accounting practices and challenge where potential anomalies arise. Management should then document their challenge of the significant estimates made by experts so they can satisfy themselves that the entries in the financial statements are reasonable.

Amendment to the cyclical PPE valuation programme

We understand that management are proposing to employ an external valuer to value the Authority's PPE assets for the 2020/21 financial statements, as it does for its annual valuation of its investment properties The intention will be that the Authority's internal valuer will provide an initial challenge of the external specialist's assumptions, and provide greater assurance to the finance team preparing the financial statements. We agree this will provide the opportunity for additional challenge as set out above. We recommend that the valuer values a proportion of all the Authority's asset types each year (rather than by category type every 5 years) so that the Authority has a benchmark for indexation should it need it.

Capacity of the finance department.

We have found that the finance officers have been stretched during both the preparation and the audit of the Authority's financial statements, exacerbated by the level of work associated with Covid-19 reporting. We suggest that senior management review the finance department's deliverables and staff capacity so the two are fairly aligned. This will improve the Authority's accounts production process and reduce the amount of time required for the audit.

Assessment of Control Environment (Continued)

Financial controls

Bank reconciliations of imprest bank accounts

There are a number of imprest bank accounts in the Authority's portfolio that are not reconciled on a regular basis, resulting in unexplained differences between the Authority's accounting records and statements from the relevant financial institutions. Whilst appreciating that these differences are not material, reconciliations should be performed on a regular basis to ensure appropriate record keeping and prevent any undetected irregularities.

Approval of transfers to/from earmarked reserves

Transfers to/from earmarked reserved are generally processed in the accounting records without proper substantiating approval at the appropriate level. Proper documented approval mechanisms should to be implemented by management to substantiate reported approvals to/from earmarked reserves in the accounting records.

45

08 Data Analytics

Data analytics

Analytics Driven Audit

47

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 2019/20, our use of these analysers in the Authority's audit included testing journal entries, 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.

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.

09 Independence

Confirmation and analysis of Audit fees

Independence confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report in June 2020. We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements. We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee in February 2021.

Audit fees

	Final Fee 2019/20	Planned Fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee – Code work - Note 1	81,325	81,325	81,325
Additional procedures – Code work - Note 2	Tbc – Note 2	0	16,600
Non-audit work – Housing Benefit Subsidy claim – Note 3	Tbc – Note 3	14,326	20,490
Total fees			118,415

The final fee for our Code work will be confirmed upon completion of the audit. We will report the final fee to the Audit Committee in our Annual Audit Letter. For 2019/20, the final fee has been impacted by a range of factors which has resulted in additional work. We set out an estimate of the potential additional fee for this below which we will discuss in detail with Deputy Chief Executive (S151 officer) and will be subject to approval by PSAA.

Note 1: Our fee above does not include the scale fee review which is currently under review with PSAA to agree whether the scale fees for local government need to be rebased to account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. There is now greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. Discussions with PSAA remain ongoing.

Note 2: There will be additional fees for 2019/20 because of the additional work required because of Covid-19 on the following:

- Using EY Real Estate experts to assess the impact of Covid-19 on land and building valuations and the material uncertainty clause in the

Confirmation and analysis of Audit fees (continued)

Authority's valuation report; to review a sample of valuations of investment properties and other land and buildings valued on the basis of existing use value assets, 17 assets in total.

- Reviewing governance arrangements and testing of Covid-19 expenditure;
- Extended testing of unrecorded liabilities and subsequent events;
- Additional procedures to consider the Authority's going concern assessment;
- Consultation requirements concerning the impact on the auditor's report from the land and building valuations material uncertainty clause and going concern assessment.
- Additional work in respect of the Authority's value for money significant risk.

Note 3: From 2018-19 onwards the Housing Benefit subsidy audit work falls outside the PSAA regime and is subject to a separate fee proposal and engagement terms. We have been contracted to undertake agreed upon procedures (AuP) by the Authority in order to certify the housing benefit subsidy claim. We started these procedures in January 2021. The final fee charged for this work will be dependent upon the level of error and additional testing we are required to undertake in response. This level of work varies year on year and we cannot provide a reliable estimate at this stage.

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 Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, 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.

We have one issue to bring to the attention of the Audit Committee.

Malcolm Haines, a manager in our Government & Public Sector audit team, is an approved foster carer for Wokingham Borough Council. Malcolm was also previously the audit manager on this audit. Malcolm had informed the Engagement Lead of his intention to undertake foster caring duties for WBC and, as a safeguard measure, he was removed from that audit. Malcolm has also consulted the EY's UK Independence team to report this matter & confirmed that he is no longer a covered person for the audit. Whilst holding a role as a foster carer may be perceived as a conflict, we do not believe this would pose an independence concern as the work of the employee as a 'foster carer' is peripheral to the work performed on the audit by the firm and tangential to the work of the Authority. On the basis that Malcolm had taken the necessary actions and that the duties involved in being a foster carer would not impact the audit, we believe that the threat to independence is minimal and there is no compromise to the firm's objectivity, integrity whilst the individual is performing a dual role as a foster carer and an employee of EY.

There are no other relationships from 1 April 2019 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

On the previous slides, we have included a summary of the fees that are due to us in relation to the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included in the slides above.

This includes our certification of the Authority's Housing Benefit claim, the fee for which is reported on the previous slide.

We confirm that none of the services listed has been provided on a contingent fee basis.

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.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Audit Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020

10 Appendices

Appendix A

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Outstanding item	Actions to resolve	Responsibility
Follow up of the work on the IAS19 assurances from the auditors of Berkshire Pension Fund	The Pension Fund auditor to provide a final letter of assurance.	EY and Pension Fund auditor
Covid-19 Going concern consultation process	EY and management	EY and management
Reworking of the group consolidation	Query with management	Management and EY
Review procedures	Final Engagement Leader and Manager review of the final position on concluded work, audit adjustments and reporting	EY
Statement of accounts	Review of the final version of the accounts	EY
Management representation letter	Receipt of signed management representation letter	Management and Audit Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management

Appendix B

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 – June 2020 Audit Committee.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – June 2020 Audit Committee.
Significant findings from the audit	• 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 – February 2021 Audit Committee.

Appendix B

		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: • 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	Audit results report – February 2021 Audit Committee.
Misstatements	• 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 – February 2021 Audit Committee.
Subsequent events	• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report – February 2021 Audit Committee.
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • 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 Authority, any identified or suspected fraud involving: 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 – February 2021 Audit Committee.

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • 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 Authority	Audit results report – February 2021 Audit Committee
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • 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 Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report – June 2020 Audit Committee. Audit results report – February 2021 Audit Committee

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report – February 2021 Audit Committee
Consideration of laws and regulations	• 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	• Significant deficiencies in internal controls identified during the audit.	Audit results report – February 2021 Audit Committee

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report – June 2020 Audit Committee. Audit results report – February 2021 Audit Committee
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report – February 2021 Audit Committee
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – February 2021 Audit Committee
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report – February 2021 Audit Committee
Fee Reporting	• 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 – June 2020 Audit Committee. Audit results report – February 2021 Audit Committee

Management representation letter

Management Representation Letter

[To be prepared on the entity's letterhead]
[Date]

Helen Thompson
Ernst & Young LLP
Grosvenor House,
Grosvenor Square,
Southampton
SO15 2BE,

61

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of the Wokingham Borough Council ("the Group and Council") for the year ended 31 March 2020. 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 consolidated and council financial statements give a true and fair view of the Group and Council financial position of the Wokingham Borough Council as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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, for the Group and Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council 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 Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the consolidated and Council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council have 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 2019/20 for the Group and Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

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

Management representation letter

Management Representation Letter

the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

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

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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 consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any 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 consolidated or 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 Group or 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 all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of the Group, and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date] and of the Council, and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date].

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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 year 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 consolidated and council financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

Management representation letter

Management Representation Letter

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter dated 12 March 2020 through the date of this letter we have disclosed to you any unauthorised access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate

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 consolidated and council 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 to litigation and claims, both actual and contingent, and have disclosed in Note 33 to the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no subsequent events , including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. Necessary adjustments have been made to eliminate all material intra-group transactions amongst council and its subsidiary undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises Narrative Statement and Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H, Going Concern

1. Note x to the consolidated and Council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

I. Ownership of Assets

1. Except for assets recognised as right-of-use assets in accordance with IFRS 16 Leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet.

J. Reserves

1. We have properly recorded or disclosed in the consolidated and Council financial statements the useable and unusable reserves.

Management representation letter

Management Representation Letter

K. Contingent Liabilities

We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and council financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:

(1) Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners and examinations by taxing authorities none of which involves any allegations of non-compliance with laws or regulations that should be considered for disclosure in the consolidated and council financial statements or as a basis for recording a loss contingency.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land, buildings and investment properties, and a pensions specialist to evaluate the IAS 19 pension entries and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council 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.

M. Estimates

Valuation of Land, Buildings and Investment Properties Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We confirm that the significant assumptions used in making the valuation of land, buildings and investment properties estimate appropriately reflect our intent and ability to provide a valuation for these assets in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20

Public Finance Initiative (PFI) Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We confirm that the significant assumptions used in making the PFI estimate appropriately reflect our intent and ability to provide a valuation for these assets in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20

IAS 19 Pensions Liability Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Management representation letter

Management Representation Letter

2. We confirm that the significant assumptions used in making the IAS 19 Pensions Liability estimate appropriately reflect our intent and ability to provide a valuation for these assets in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20

We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates is complete, including the effects of the COVID-19 pandemic on the valuation and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and Council financial statements due to subsequent events.

N. 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.

Yours faithfully,

_____

(Deputy Chief Executive & S151 Officer)

_____

(Chairman of the Audit Committee)

Scoping of the group audit

We report on the scope of the audit of each of the Authority's subsidiaries below.

Scope of the audit of the Authority's subsidiaries

Our audit approach is risk based. The table below sets out the scoping details of all of the Authority's subsidiaries. We set audit scopes for each subsidiary which, when taken together, enables us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed for each component.

Detailed scoping

In scope entities	Audit scope	Rationale	Statutory audit performed by	Current year rationale for scoping	
				Size	Risk
Optalis Ltd	Full scope	Optalis is a full scope audit as it is significant in size with service expenditure of £47.1 million which is 13.5% of group spend.	Hazlewoods Ltd	Yes	Yes
WBC (Holdings) Ltd including: • Wokingham Housing, • Loddon Homes • Berry Brook Homes	Specific scope	Specific scope audit as the only material income is for housing at £7.355m. Debtors at £15.1 million. Also, material balances for: • Wokingham Housing: Current assets of £5.7m • Loddon Homes: PPE of £22.7 m and Long Term liabilities of £20.7 m. • Berry Brook Homes: PPE of £25.5m and Long Term Liabilities of £25.4m.	Haslers Ltd	No	Yes

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