Wokingham Borough Council

Annual Audit Letter for the year ended 31 March 2020

August 2021

EY

Building a better working world

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). [**OR** As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website].

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 of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact 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.

Section 1

Executive Summary

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Executive Summary

We are required to issue an annual audit letter to Wokingham Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► 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.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment	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 Council's valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of land and buildings 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 Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council'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 would need to be disclosed. The amount of detail required in the disclosure would need to reflect the specific circumstances of the Council.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the Council due to the inability of the audit team to verify original documents or re-run reports on-site from the Council'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.
► Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 6 August 2021.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 6 August 2021.

The audit for 2019/20 has been protracted, and we would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

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

Section 2

Purpose and Responsibilities

Ref: EY-000092651-01

Purpose

The Purpose of this Letter
The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report which was circulated to the Audit Committee. representing those charged with governance, on 6 August 2021. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 3 June 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

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

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

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 6 August 2021.

Our detailed findings were reported to the Audit Committee in March 2021, and the final audit results report was shared with members of the Audit Committee via email on 6 August 2021.

The key issues identified as part of our audit are set out on the following pages:

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion

Misstatements due to fraud or error
The financial statements as a whole are not free of material misstatements whether caused by fraud or error.
 	
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
 	
We identify and respond to this fraud risk on every audit engagement.
	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.
	• performed mandatory procedures regardless of specifically identified fraud risks, including:
	  • testing journals at year-end to ensure there are no unexpected or unusual postings. 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 tested unusual or unexpected transactions. No evidence of bias, or unusual transactions, was identified.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition – incorrect capitalisation of expenditure 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 have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.	We focused on the Council's judgements to classify expenditure as either revenue or capital in nature. In response to this risk, we: • Tested a sample of PPE and IP additions to ensure that the expenditure incurred and capitalised was 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 Revenue expenditure funded from capital under statute (REFCUS), to ensure that it was 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. Based on the work completed: • we were 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 identified two issues from our work in this area: **REFCUS** The Council's draft accounts recorded a material REFCUS balance of £9.7m. This included £6.7m paid by the Council to one of its subsidiaries, Berry Brook Homes, for a lease premium relating to the 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 Council and therefore the treatment as REFCUS was not compliant with the CIPFA Code. Officers amended the accounts and reclassified this as a revenue grant.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition – incorrect capitalisation of expenditure (cont'd)	**Flexible Use of Capital Receipts** We challenged the Council's use of £1.3m of capital receipts on revenue expenditure for staff salaries for people working on the Council'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 Council 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 £1.3m 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.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Valuation of Land and Buildings – Property, Plant and Equipment and Investment Properties The value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet, covering both those assets that are revalued within the year and the continuing material accuracy of those valued in prior periods.	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 response to this risk, we undertook the following procedures: • Challenged the assumptions used by the Council'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 to consider also the material uncertainty disclosed by the Council's valuer's in their valuation report to the Council which arose due to Covid-19. • Considered the work performed by the Council's internal valuer and confirmed that the scope of the work performed was adequate, they had the appropriate professional capabilities to complete the work and the results of their work was 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 Council's five year rolling programme had been completed, and that all investment property had been revalued in year as required by the Code. • Assessed those assets not subject to valuation in 2019/20 to confirm that the remaining asset base was 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 Council's asset base by type of asset and valuation methodology, as impacts were likely to be more significant for assets valued on the basis of data from market transactions.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Valuation of Land and Buildings – Property, Plant and Equipment and Investment Properties (cont'd)	• ensured the appropriate disclosure has been made in the accounts concerning the material uncertainty included in the Council's valuation report which arose due to the Covid-19 pandemic. We completed our planned procedures and identified a number of findings. These were reported in more detail in our audit results report, and are summarised here. 1. Assumptions used by the valuer: • Following our challenge. management undertook an exercise to corroborate and correct, where necessary, the supporting evidence for the valuations which resulted in valuation adjustments to the Other Land and Buildings. 2. Assets not valued at 31 March 2020: • The fixed assets register and Statement of Accounts did not account for the revaluations of four properties included in the property investment group valuation • Significant additions were made to the Peach Place development during the year which were not revalued at the year end. • Significant transfers of Other Land and Buildings from Assets under Construction were made during the year without having been valued in line with the CIPFA Code which 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 in the absence of an active market. • Other Land and Buildings of £222.7m were not revalued as at 31 March 2020, nor were these properties' values reviewed to ensure materially accurate reporting thereof in the Statement of Accounts. Management corrected the financial statements which resulted in downward valuation of Other Land and Buildings amounting to £45.7m.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Valuation of Land and Buildings – Property, Plant and Equipment and Investment Properties (cont'd)	3. Council dwellings: • The Council Dwelling Valuation Report incorrectly included properties that were previously derecognised from the Council's records, and accounted for shared ownership properties at 100% of its value instead of the percentage owned by the Council. Management subsequently corrected the overstatement of these properties which resulted in adjustments to the value of Council Dwellings in the Statement of Accounts. 4. Use of EY Real Estate: • We engaged our real estate specialist (EYRE) to review the revaluations of 11 assets selected from Land and Buildings and Investment Property. From this review, four properties were found to have a value outside of a reasonable range of valuations established by EYRE for each asset. Following discussions between EYRE and the Council's expert, management reviewed the valuation assumptions for each of these assets, and amendments were made to the final statement of accounts. For one asset, Carnival Pool Multi Storey Car Park, the revised valuation remained outside our acceptable range, and we reported the difference of £4.65m as an unadjusted judgemental difference. PPE and IP Valuation – Emphasis of Matter We identified that the Council had not initially adequately disclosed the material uncertainty highlighted within the Valuers' Report. The financial statements were 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 included an Emphasis of Matter within our audit report to draw the attention of the reader of the accounts to the Council's disclosure relating to the material uncertainty included in the valuer's report. We note this is not a qualification of the audit opinion.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Windsor & Maidenhead Council, the Berkshire Pension Fund Administrator. 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 2018/19, late changes were required to disclosures in the financial statements arising from the McCloud legal judgement. There could be further impact for 2019/20 should any further developments arise.	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 Council's financial statements. We had ongoing discussions with the Pension Fund auditor to understand the timetable for their work, and we received their final assurance letter towards the end of May 2021. **Pension accounting entries and disclosures:** The Council 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. We reviewed the amended pension accounting entries and disclosures within the Council's financial statements and concluded the increase of £7.775m in the total pension liability is appropriate. However, the IAS 19 report did not include the potential impact of the Goodwin Case. Our pensions expert determined that the impact thereof would result in a judgemental misstatement in the range of 0.1% to 0.2% of the pension fund liability at year end. This was not adjusted in the financial statements. **IAS 19 assurances:** We reviewed the audit assurances received from the Berkshire Pension Fund auditors in late May 2021 and raised a number of queries on the work that has been carried out. We identified differences in membership data used to compile the IAS19 reports by the Pension Fund actuaries. We engaged our pensions expert to determine the impact of these differences, and as a consequence, identified a judgemental misstatement in the range of 0.25% to 0.31% of the pension fund liability value at year end. This was not adjusted in the financial statements. The impact of these potential misstatements on the pension fund liability at 31 March 2020 was an understatement of £2,205k in the total liability. As the difference is not material, we concluded that the net pension liability was fairly stated.

Financial Statement Audit

Key Issues

Other audit risks on the Council audit

Disclosures on going concern and events after the balance sheet date - The provisional accounts did not include a detailed disclosure on going concern. Officers produced an assessment of the impact of Covid-19 on the Council's finances and used that to draft a new going concern disclosure note which was included in the draft accounts. We 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 were satisfied that it was an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis. We 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 but we concluded this was not necessary.

Private Finance Initiative (PFI) – We were satisfied the Council's material PFI arrangements have been correctly accounted for in the financial statements.

Group accounting disclosures – The Council 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.

We reviewed the work carried out by the component auditors and had no issues to report. However, our work identified the accounting policies of the subsidiary accounts were not aligned to those of the Council. Management has subsequently amended the group accounts to correct this. However, non-material adjustments in the preparation of the consolidated financial statements could not be appropriately substantiated by management, and were reported in our audit results report.

Financial Statement Audit (cont'd)

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £6.665m (2019: £6.269m) for both the Council and the Group, which is 2% of gross expenditure on provision of services reported in the accounts of £333.2m. We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £333k (2019: £313k) for both the Council and the Group.

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

- Remuneration disclosures including any severance payments, exit packages and termination benefits. We audit these fully given their inherent sensitive nature.
- Related party transactions. We consider any related parties in terms of the underlying relationship and potential influence, and not simply the overall values disclosed.

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

Section 4

Value for Money

Value for Money

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

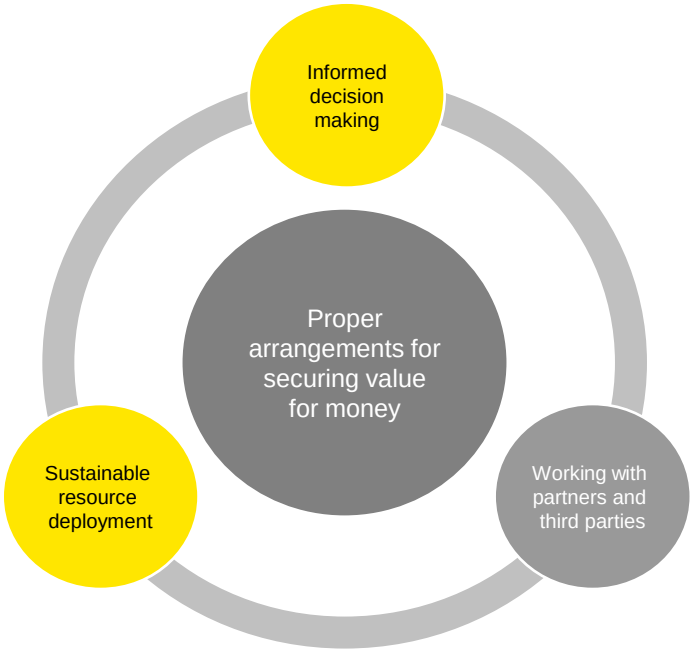
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

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 NHS bodies' 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 VFM arrangements conclusion.

We identified two significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

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



Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 6 August 2021.

Significant Risk	Conclusion
Commercialisation and the purchase of investment properties The Council has plans to develop some £85m of significant commercial and investment opportunities to generate more income. The Council's 21st Century transformational change programme is critical in enabling the Council to delivering the level of savings needed for a sustainable financial future. Progress has been made against the target of £3.3m of savings over 2019/20, which is in additional to some 22.8m 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 authorities 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.	We concluded that: • The Council's key strategic documents are well aligned, with both the Investment and Capital strategies showing planned increases to future investment. The Council's investment portfolio is well developed, with a portfolio of £79m returning a net yield of 5.25%. The overall aims of the Council with regards to commercialisation are consistent, with targets clearly outlined. • Property purchases are supported by clearly defined process, utilising desktop appraisals, Property Investment Group review, purchase proposals, and cost & yield analysis. The Council obtains external legal and property advice throughout the purchase process to supplement the due diligence undertaken. To assess the process, we reviewed the acquisition of the Denmark Street Car Park. • 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 Council, who all attend PIG meetings throughout the year. • The Council 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 Council to comply with the guidance and make informed decisions on financial investments, which in turn allows for sustainable resource deployment. The Council sets aside MRP of 10% of the value of the asset over 15 year to cover any reduction in value if needed. We suggested the Council 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 Council 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 (cont'd)

Significant Risk	Conclusion
Effectiveness of the Council's Governance and Risk Management Framework The Council's Local Code of Corporate Governance (LCCG) is a useful tool outlining the design of the Council's Governance and Risk Management Framework. The Council'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 Council's strategic objectives in the Council Delivery Plan; ‣ the Council's risk profile is high with 11 of 13 risks at high (8) or very high (3), which is contrary to the Council'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 Council'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 Council's governance arrangements in year, any significant weaknesses and action plans for the resolution of prior year issues and issues going forward. The Council should be disclosing how the Council's Assurance Framework complies with its LCCG with a clearer statement on how the Council is achieving its strategic objectives and addressing areas for improvement.	The Council'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. ". A risk management champions group, comprising representatives from across the Council, has been established in 2020/21 to help drive and co-ordinate the Council's approach to risk management. However, risk management needs to be better embedded in the day to day business and reporting of the Council as follows: • 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. • The Risk Management Policy & Guidance sets out the Council's approach to risk appetite, however the Corporate Risk Register does not clearly record the Council's residual risk so it is difficult to see whether the Council is operating within its risk tolerance. The Council has agreed to consider this further. • Embedding and developing the role of the Audit Committee to provide overall assurance to the Council over the effectiveness of the Council's Risk Management Framework arrangements. • Reviewing the Audit Committee's work programme to ensure it covers all CIPFA audit committee best practice requirements. • Considering the implementation of 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.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500m. Therefore we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We had no matters to report

Report in the Public Interest

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

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

Written Recommendations

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

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

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 28 July 2021. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Other Reporting Issues (cont'd)

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive audit approach and have therefore 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.

However, we note below issues included in our audit results repory.

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 Council'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 Council'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 Council's asset types each year (rather than by category type every 5 years) so that the Council 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 Council'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 Council's accounts production process and reduce the amount of time required for the audit.

Bank reconciliations of imprest bank accounts

There are a number of imprest bank accounts in the Council's portfolio that are not reconciled on a regular basis, resulting in unexplained differences between the Council'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.

Other Reporting Issues (cont'd)

Control Themes and Observations (cont'd)

Group accounts

Group information and disclosures within the Council's Statement of Accounts required several material corrections. In particular, we found challenges around the disclosure of the group Cash Flow Statement. Proper mechanisms that allow for the revision of underlying consolidation records and workings should therefore be implemented to ensure that this information is accurately presented and properly substantiated by sufficient appropriate accounting records. We are likely to include this as an area of audit focus in future audits.

Section 6

Focused on your future

Focused on your future

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

Standard	Issue	Impact
IFRS 16 Leases	The CIPFA LASAAC Local Authority Accounting Board has recently announced the implementation of this standard will be deferred until the 2022/23 financial year. This is in response to the ongoing pandemic and the impact on local authority finance teams. The Board has indicated this will be for one year only and there is no intention to grant any further extensions based on lack of preparedness. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.	Whilst there is a further delay in implementation, it is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

Section 8

Audit Fees

Audit Fees

Our fee for 2019/20 is set out in the table below.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
PSAA Scale Fee – Code work (Note 1)	81,325	81.325	81,325	81,325
Scale fee rebasing (Note 1)	TBC	58,655	-	-
Additional procedures – Code work (Note 2)	TBC	Nil	Nil	16,600
Non-audit work – Housing Benefit Subsidy claim (Note 3)	47,000	10,000	Nil	20,490
Total fees	**TBC**	**149.980**	**81,325**	**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.

Audit Fees

(cont.)

Note 2: There will be additional fees for 2019/20 because of the additional work required 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 Council'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, 11 assets in total.
- Responding to the errors identified in the valuation of land and buildings more widely, and ensuring the accounting entries were properly disclosed.
- Extended testing of the group accounting disclosures and subsequent amendments to the accounts.
- Responding to the membership data issues identified in the Pension Fund auditor's assurance letter, which included the use of EY Pension experts.
- Reviewing governance arrangements and testing Covid-19 expenditure.
- Extended testing of unrecorded liabilities and subsequent events due to delays in completing the audit.
- Additional procedures to consider the Council'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 Council's value for money significant risks.

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 Council in order to certify the housing benefit subsidy claim. The planned fee of £10,000 relates only to the agreed fee for the initial testing. Significant additional testing was required to meet the AuP requirements. We completed these procedures for 2019/20 and expect to agree the proposed fee of £47,000 with officers.

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ED None

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