

Wokingham Borough Council

Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK & Ireland) 260

September 2015

13



Contents

		Page
Section 1	Executive summary	3
Section 2	Extent and purpose of our work	5
Section 3	Addressing audit risks	7
Section 4	Financial statements audit – issues and findings	9
Section 5	Arrangements to secure economy, efficiency and effectiveness	13
Section 6	Challenges for the coming year	16
Section 7	Independence and audit fees	18

Section 1

Executive summary

15

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising from our audit of the Council's financial statements and the results of our work to assess its arrangements to secure value for money in its use of resources.

Financial statements

- ▶ As of 16 September 2015, there are a number of audit procedures that are outstanding. We have raised a number of queries with management and until these areas are fully addressed we cannot assess if we are likely to be issuing an unqualified opinion.

Value for money

- ▶ We expect to conclude that the Council has made appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

19 Whole of Government Accounts (WGA)

- ▶ We are required to issue an opinion to the National Audit Office (NAO) regarding the WGA submission. We will form our conclusion on the opinion we will issue once our outstanding audit procedures are complete.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Code have been discharged for the relevant audit year. We expect to issue the certificate at the same time as the audit opinion.

Section 2

Extent and purpose of our work

17

Extent and purpose of our work

The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and any planned changes in the coming period.
- ▶ The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ express an opinion on the 2014/15 financial statements and the consistency of other information published with them;
 - ▶ report on an exception basis on the Annual Governance Statement;
 - ▶ consider and report any matters that prevent us being satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion); and
 - ▶ discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

This report also contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

The Council is considered a component of the Whole of Government Accounts (for the whole public sector) and as a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to both the NAO and to the Council.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

We identified the following audit risk during the planning phase of our audit, and reported this in our Audit Plan. We set out here how we have gained audit assurance over this issue.

In the context of auditing the financial statements, we define a significant audit risk as an inherent risk which is both more likely to happen and has a more serious effect if it does happen, and which requires special audit consideration. For significant risks, we obtain an understanding of the entity’s relevant controls and assess their design and implementation.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risk (including fraud risk)</p> <p>Risk of management override</p> <p>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.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ reviewing accounting estimates for evidence of management bias, and ▶ evaluating the business rationale for significant unusual transactions. 	<p>We found no issues of concern in these areas.</p>

Section 4

Financial statements audit – issues and findings

21

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- ▶ We still need to complete the following areas of our work programme. We will provide an update of progress at the Audit Committee meeting:
 - ▶ Accounts payable;
 - ▶ Income and Expenditure testing; and
 - ▶ receipt of a Letter of Representation
- ▶ Until these areas are fully addressed we cannot assess if we are likely to be issuing an unqualified opinion on the financial statements.

Uncorrected misstatements

22

We have identified no misstatements to date in the draft financial statements which management has chosen not to adjust.

Corrected misstatements

- ▶ To date our audit has identified a number of errors which have been highlighted to management for amendment. Management have agreed to correct these errors.

Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must communicate to the Committee significant findings from the audit and other matters significant to the oversight of the Council's financial reporting process. These include the following:
 - ▶ qualitative aspects of accounting practices; estimates and disclosures;
 - ▶ matters specifically required by other auditing standards to be communicated to those charged with governance, e.g. issues around fraud, compliance with laws and regulations, external confirmations, and related party transactions;
 - ▶ any significant difficulties during the audit; and
 - ▶ any other audit matters of governance interest.

In comparison with prior years there have been a number of issues with the quality and version control of working papers. This was in part due to the implementation of the new ERP system in September 2014. We will liaise with management to identify the lessons to be learnt in order to secure improvement for the 2015/16 audit.

From our testing in relation to payroll we identified that there was one instance of a member of staff continuing to be paid for six months after leaving employment of the Council. This overpayment was recovered in full from the individual, and other testing has confirmed that this was an isolated incident. We are therefore satisfied that this does not represent a risk of material misstatement to the 2014/15 financial statements, but it does indicate a potential weakness in the controls relating to the leavers process. We understand that management are aware of the potential weakness and CLT have considered how controls can be improved.

Financial statements audit – application of materiality

Our application of materiality

- ▶ When establishing our overall audit strategy, we set the level of uncorrected misstatements we considered to be material for the financial statements as a whole.

23

Item	
Planning Materiality and Tolerable error	<p>We set planning materiality at £6.76 million (2014: £6.59 million), which is 2% of gross expenditure in the accounts of £329 million.</p> <p>We also set a tolerable error (TE) for the audit. This is how we apply planning materiality at the more detailed level of an individual account or balance. Its purpose is to make reasonably sure that the total of all uncorrected and undetected misstatements is unlikely to exceed planning materiality. The level of TE drives how much detailed audit testing we need to support our opinion.</p> <p>We set TE at the upper level of the available range because there were no corrected significant errors in the Council's 2013/14 financial statements and no uncorrected errors.</p>
Reporting Threshold	We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £250 thousand (2014: £329 thousand)

We also identified areas where we used a lower level of materiality level, as it might influence the reader. For these areas we developed a specific audit strategy. These include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: Strategy applied: We have reviewed the details and agreed to supporting documentation where necessary.
- Related party transactions. Strategy applied: We have reviewed the details of related party declarations and identified transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above; we also take into account any other relevant qualitative considerations.

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ It is the Council's responsibility to develop and implement systems of internal financial control and to have proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as the Council's auditor is to consider whether the Council has adequate arrangements to satisfy itself that this is indeed the case.
- ▶ We have tested the controls of the Council only to the extent needed to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
 - ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
 - ▶ it is consistent with other information we know from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control, which the Council does not know about, that might result in a material misstatement in the financial statements.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation on a number of matters: to date these are standard representations.

Whole of Government Accounts

- ▶ As well as our work on the financial statements, we also review and report to the National Audit Office on the Council's Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ We are currently concluding our work in this area and will report any matters arising to the Audit Committee.

Section 5

Arrangements to secure economy, efficiency and effectiveness

25

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Wokingham Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 – arrangements for securing financial resilience

- ▶ 'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- ▶ We did not identify any significant risks under this criterion
- ▶ We have no issues to report under this criterion

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We did not identify any significant risks under this criterion
- ▶ We have no issues to report under this criterion
- ▶ Our work did not identify any other matters on aspects of the Council's corporate performance and financial management framework which are not covered by the scope of these criteria

Addressing audit risks – other VFM considerations (continued)

VFM consideration identified within our Audit Plan	Audit approach	Assurance gained and issues arising
The current financial pressure on local authorities and the impact and necessity for continuous focus on financial resilience and use of resources represents a significant challenge over the medium term.	Our approach focused on: <ul style="list-style-type: none">critically reviewing the Council's Medium Term Financial Plan.	Based on the work undertaken to date we are satisfied that the Council's medium term financial plan appears prudent, and appropriately recognises the future challenges faced by the Council and how the Council can respond to these in the medium term.

Section 6

Challenges for the coming year

28

Challenges for the coming year

Highways Network Asset (formerly Transport Infrastructure Assets):

The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.

This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.

29 This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.

Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.

Potential impact

Given the size of the Highways network in the Wokingham Borough Council area this will have a significant impact for the Council. Members will need to ensure the Council has plans in place to assess if current systems and processes are adequate to identify, administer, value and report on any requirement to account for Highways Network Assets.

Section 7

Independence and audit fees

30

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since the confirmation in our Audit Plan dated 12 May 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent, and the objectivity of the audit engagement partner and staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm and that we are required by auditing and ethical standards to report to the Council.

31

We consider that our independence in this context is a matter that should be reviewed by both the Council and us. It is therefore important to consider the facts of which the Council is aware and come to a view. If the Committee wish to discuss any matters concerning our independence, we will be pleased to do so at the meeting on 28 September 2015.

Reporting to Those Charged With Governance

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our plan to meet these requirements were set out in our Audit Plan of 12 May 2015.

Audit fees

- ▶ The table below sets out the original scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	140,822	140,822	N/A
Certification of claims and returns	12,140	12,140	N/A
Non Audit Work	17,306	N/A	N/A

- ▶ Our actual fee is provisionally in line with the agreed fee, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have undertaken non-audit work outside of the Audit Commission's Audit Code requirements. We provided financial analysis in respect of its on-going discussions on with FCC Environment (previously named Waste Recycling Group) to Wokingham, Bracknell Forest & Reading Councils.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com