

Wokingham Borough Council

Audit Committee

Progress Report

January 2022





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Progress Report - 2020/21 Audit

We are pleased to attach our Audit Progress Report.

This progress report provides a summarised update of the work we have undertaken on the 2020/21 financial statements audit to date and other matters relevant to our audit. This report also provides the Committee with an update on progress to date on our 2020/21 housing benefit subsidy claim certification. Our detailed audit plan for the 2020/21 financial statements audit and update thereto were presented to the Committee at its September and November meetings, and are not repeated here.

Our audits are undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

Whilst our audit remains ongoing, the delivery of local authority audits over the past two years have been significantly impacted sector-wide by the Covid-19 pandemic and working offsite. This has led to delays in the completion of many audits across all audit firms.

We welcome the opportunity to discuss this report with you at your meeting on 2 February 2022.

Yours faithfully

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

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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

1.2020/21 Financial Statements Audit – Progress

Overall

No interim visit was undertaken during the 2020/21 audit due to the timing of the prior audit's finalisation (6 August 2022). Our year-end visit was further impacted by limited availability of resources on both sides, as well as delays in the finalisation of selecting the samples for property valuation and delays in the receipt of pension fund assurances. Despite these pressures, our year-end visit is however well progressed to date and we are grateful to officers for their help in facilitating this. There are, however, components where work is still ongoing, with further details outlined below. We plan on presenting our final report on the audit results to the Committee at the March meeting.

Key areas of work required

The following key areas require further work at the date of this report:

i. Valuation of pension fund assets and liabilities:

Assurances from the auditors of the Berkshire Pension Fund over the information supplied to actuary in relation to the Council was received by us on 19 January 2022. The letter confirmed their audit remains ongoing, with final reporting expected in March 2022. There is a risk this could lead to further misstatements or possible control weaknesses, in the Council's pension fund liability disclosed, and consequently require further assessment to determine the extent thereof. Progress in this area is not within our control and could therefore potentially impact progress of the audit.

Furthermore, the new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, were able to access the detailed models of the actuaries to evidence these requirements. We therefore modified our planned approach and are undertaking alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. The results of this exercise are also outstanding but are expected this month.

ii. Group account consolidations and disclosures:

Consolidation workings and disclosures are still being prepared and subject to audit.

iii. Valuations of land and buildings in property, plant and equipment, and investment properties:

As part of our audit work, we involve our EY valuation specialists (EYRE) in challenging assumptions used by the Council's valuer by reference to external evidence. Whilst the work is in progress, we are grateful to the Council's Estates team for their prompt responses to the follow-up queries from EYRE. We will update the Committee on progress at the meeting, as we expect this to continue to move forward over the coming weeks.

Audit work on valuations by the audit team also remains ongoing and is in some cases dependent on the outcome of our valuation specialists' challenge.

iv. Grants received in advance

The Council has received significant levels of government funding in relation to Covid-19. Whilst there has been no change to the CIPFA Code or accounting standard, the emergency

nature of some of these grants received and potential lack of clarity on any associated restrictions and conditions, meant that the Council had to apply a greater degree of assessment and judgement in determining the appropriate accounting treatment in its Statement of Accounts.

Our work focused on the Council's judgement in relation to whether it was acting as an agent (i.e. acting as an intermediary), or acting as principal (acting on its own behalf). We further considered whether any associated restrictions and conditions had been met for grants where the Council acted as principal and that these were claimed and recognised in accordance with the scheme rules.

Our initial work identified material differences in the accounting treatment of grants received in advance. This required management to re-evaluate the population of the disclosed grants received in advance and to affect the necessary corrections. This is not unique to the Council as the novelty and the timing of guidance issued to direct these grants impacted the wider local government sector with similar instances observed at other authorities. Our materiality thresholds used in determining sample sizes of other areas in the Statement of Accounts were however also impacted by this, resulting in additional transactions having to be selected and tested on other sections of the audit.

This correction relates to the accounting presentation of the Council's Statement of Accounts and does not impact the actual financial standing of the Council as at reporting date.

v. Going concern

Supporting underlying forecasts and calculations are in the process of being submitted to the auditors and are subject to audit.

A verbal update on the progress of these areas will be given during the meeting. The remaining areas of the audit are continuing to progress and are followed up through the meetings set out below.

Implemented actions to ensure audit progress

Whilst good progress is being made, both Council management and external auditors have implemented the following actions to ensure momentum in progressing the audit:

- A query log detailing requested information and audit issues identified is updated by the audit team and circulated to management bi-weekly
- A tracker detailing the status of the audit on a task level and to whom it has been assigned, is also updated by the audit team and circulated to management bi-weekly
- Bi-weekly catch-up calls between management and the audit team are held to discuss the query log and task tracker, and to agree actions to be taken by both parties. This also serves as platform to address and escalate, as necessary, any pressing issues.
- Daily catch-up calls within the audit team to monitor audit progress and discuss issues identified.
- Additional Council resources have now been allocated to the Audit as budget setting activity has now progressed. Daily calls are also in place to resolve any issues and ensure appropriate and timely responses
- Monthly calls between senior executives from the Council and external auditors to discuss overall audit progress and issues identified.

These actions have contributed positively towards the progress observed in the last few weeks.

2.2020/21 Financial Statements Audit – Other Key Matters

Outstanding audits – Nationally

Completion of the local government audits remained challenging for 2020/21 audits with 9% of local government audits completed by all firms at the end of September 2021. Whilst no recent information is available for this position, the timing of the 2020/21 audit for Wokingham Borough Council is generally not out of line in comparison to other councils.

In addition, the Department for Levelling Up, Housing and Communities (DLUHC) has recently announced measures to support the timely completion of local government audits and the ongoing stability of the local audit market. The measures aim to help to ensure that audit provides transparency and accountability in local councils. Details of this can be found in <https://www.gov.uk/guidance/measures-to-improve-local-audit-delays>.

2021/22 Financial Statements Audit

We aim to report the results of the 2021/22 audit to the Audit Committee at their November 2022 meeting. To achieve this, monthly calls between senior executives from the Council and the audit team are being set up to monitor progress in preparation of this. A debriefing session will also be held to further discuss and implement recommendations identified from the 2020/21 audit process.

3.2020/21 Housing Benefit Certification – Progress

Overall

Work on the 2020/21 Housing Benefit Certification is currently in progress and is expected to be completed by end March 2022, as long as no additional testing is required from the initial analysis. Although this exceeds the 31 January 2022 submission deadline, there are a large number of local authorities sector-wide that have already signaled their inability to meet this deadline.

Communications from the Department of Work and Pensions to date also make it clear that there are no current plans to withhold subsidy to authorities which do not meet the deadline. Although the Department reserves the right to review this, our interpretation of their response is that it is highly unlikely that subsidy will be withheld for authorities where there is a clear timetable and plan to complete the work within a reasonable timescale.

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