Wokingham Borough Council
Audit Planning Report

Year ended 31 March 2022

July 2022

Agenda Item 20.

EY
Building a better working world

11 July 2022

Wokingham Borough Council
Audit Committee
Civic Offices
Shute End
Wokingham
RG40 1BN

Dear Members

2021/22 Outline Audit Planning Report

We are pleased to attach our outline Audit Plan which sets out how we intend to carry out our responsibilities as auditor.

Its purpose is to provide the Audit Committee with an overview of our plans and fee for the 2021/22 audit. We have not yet completed our detailed planning procedures and any changes to our risk assessment will be communicated to the Committee at the earliest opportunity, or we will circulate the plan separately if Members prefer. This report sets our the areas which we consider will be a focus for our 2021/22 audit.

Our audit is 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.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 27 July 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

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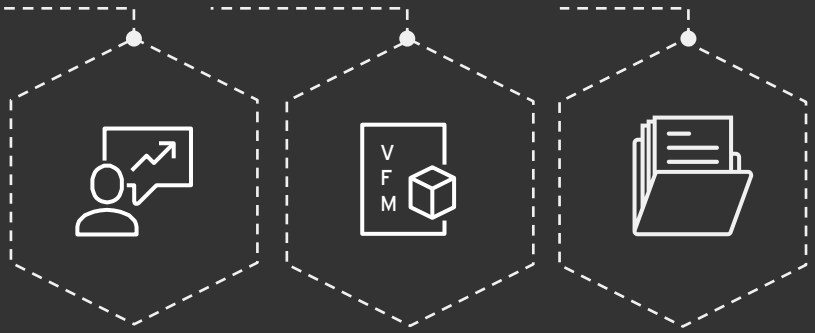

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/).The 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 July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) 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 the 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 the 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 the 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.

01 2021/22 Audit

2021/22 Audit

2021/22 financial statements audit

Planning for 2021/22

We have met the Deputy Chief Executive (S151 Officer) and senior finance staff regularly throughout the 2020/21 audit to date to discuss the status and progress of the outstanding 2020/21 issues and to organise our initial planning for the 2021/22 audit that will incorporate learning from the 2020/21 audit.

For 2021/22, the timetable as amended in the Department for Levelling Up, Housing and Communities (DLUHC) paper titled "Measures to improve local audit delays" published in December 2021 extends the publication date for audited local authority accounts from 31 July to 30 November.

Due to the ongoing impact of later deadlines and completion of audits from 2020/21, we have not yet completed our planning for the 2021/22 audit. We set out in this report our initial considerations of the risks for the audit – these are broadly similar to those identified in 2020/21. We will update these risks as our planning progresses and take into account the risks suggested by the NAO in the Auditor Guidance Note 06 – Local Government Audit Planning, which has not yet been released for 2021/22.

Wider public sector audit context

Recognising the increasing pressure on all auditors in the current climate the Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA/LASAAC have both published papers relating to audit firms and timely completion of audits.

DLUHC

The DLUHC paper published in December 2021 recognises that challenges remain around the timeliness of local audit, which was one of the key issues highlighted in the Redmond review. As the National Audit Office (NAO) outlined in its 2020 report Timeliness of local auditor reporting on local government in England, a variety of complex factors are contributing to audit delays. These include:

- Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely.
- Increasing workload and regulatory pressure on auditors. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work.

In addition to the challenges faced by auditors, in the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have been exacerbated by the impact of the COVID-19 pandemic.

Considering the complexity of the drivers behind audit delays, it is clear that a whole system response is needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector. The paper therefore sets out a series of additional measures committed to by government and other key stakeholders to support improved timeliness and the wider local audit market. These commitments are set out in Appendix A.

Overview of our 2021/22 audit strategy

2021/22 financial statements audit

CIPFA/LASAAC

The CIPFA/LASAAC paper explored proposals for change to the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 code that might serve to improve current issues around timeliness of the publication of audited financial statements. Two key proposals of this report included:

1. To allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation; and,
2. To defer the implementation of IFRS 16 Leases (standard) for a further year and not make the planned changes to the 2022/23 code to implement that standard.

The consultation period of this paper has closed and whilst the proposal to defer the implementation of IFRS16 was accepted, the proposal to pause valuations was rejected.

Materiality

Our application of materiality

When establishing our overall audit strategy, we determine the magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole. We have set our planning materiality for the Council at £7,675k, which is based on 2% of gross revenue expenditure reported in the 2020/21 accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

Performance materiality has been set at £5,756k, which represents 75% of materiality.

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £383k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

These figures will be updated upon receipt of the draft 2021/22 financial statements.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error (management override)	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. 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.
Valuation of Land & Buildings in PPE and IP	Significant risk	No change in risk or focus	The value of land & buildings in PPE and in IP represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make a high degree of 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 identified errors in the previous two years' audits which required material adjustments to the reported land and buildings value in both PPE and IP.

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Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Accounting treatment for infrastructure assets	Inherent risk	New risk for 2021/22	The value of infrastructure non-current assets is material in the financial statements. Once an item of PPE has been recognised and capitalized, the Council may incur further costs on that asset at a later date. The accounting treatment requires such subsequent expenditure to be capitalized to the value of the asset where these costs meet the recognition criteria. Where the subsequent expenditure represents the replacement of a component, the old component must be written out of the balance sheet. There is a need for the Council to ensure that it is has recognised and accounted for such subsequent expenditure appropriately. CIPFA is currently considering potential amendments to the Local Authority Code of Accounting Practice in this area. The level of risk associated with this balance may increase once CIPFA has concluded its consideration of the Code.
Pension Liability Valuation	Inherent risk	No change in risk or focus	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 the Royal Borough of Windsor & Maidenhead, the Berkshire Pension Fund Administrator. The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Going Concern Disclosure	Inherent risk	No change in risk or focus	There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. There is a need for the Council to ensure it's going concern assessment is robust and appropriately comprehensive. The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular, highlights any uncertainties it has identified.
Accounting for Public Finance Initiative (PFI)	Inherent risk	No change in risk or focus	The PFI liability and associated expenditure represent material figures within the Council's financial statements. The accounting for a PFI scheme involving reliance on historic accounting models and a number of judgements. Errors within the models or changes in judgement can have a material impact on the financial statements. We therefore recognise the PFI scheme as an area of audit focus. There is a risk the Council fails to account properly for the PFI contract. Due to the size and complexity of the PFI and associated transactions, we believe there is a potential to have an impact on the financial statements. In 2018/19, we commissioned a detailed review of the RE3 Waste PFI arrangements for Bracknell, Reading and Wokingham Councils by our PFI specialist. This included a review of the assumptions used in the RE3 PFI accounting model and commenting on local adjustments made to the model. Our work will focus on any changes to estimates within the model and accounting plus future inflation assumptions.

Overview of our 2021/22 audit strategy

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Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Group Accounting	Inherent risk	No change in risk or focus	The Council prepares group accounts which involves consolidating the financial statements of its following four subsidiaries: • Optalis Holdings Ltd that provides Adult Social Care Services; • WBC Holdings (WBCH) Ltd that provides social and affordable housing. (WBCH also includes Wokingham Housing Ltd, Loddon Homes Ltd and Berry Brook Homes Ltd as its subsidiaries) These subsidiaries contain accounting entries and balances that can be considered material or significant to the group, and will be classified as either full or specific scope audits. This is consequently an area of potential complexity and judgement requiring regular revision by senior management.

02 Value for Money Risks

Value for Money

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

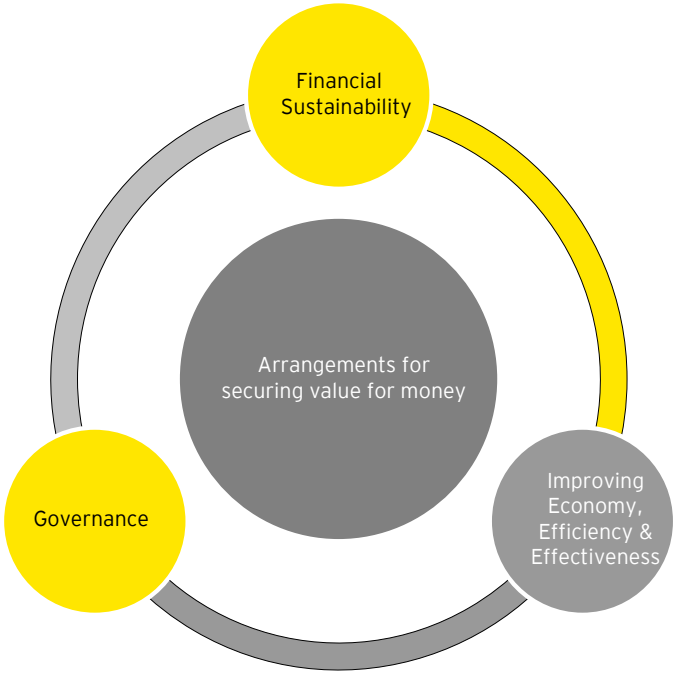
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement;
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

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- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Where we have sufficient evidence to determine that there is a significant weakness on VFM related arrangements we are able to report that weakness, and an associated recommendation for improvement, at that time and not wait until we issue our Audit Results Report on the audit of the statement of accounts.

Status of our 2021/22 VFM planning

Our assessment for the Council of the risk of significant weaknesses in the arrangements supporting each of the specified reporting criteria has not yet started. Our assessment will focus on a combination of:

- Cumulative audit knowledge and experience.
- Review of Council committee reports,
- Review of other documentary evidence available on the Council's website.
- Consideration of financial and performance reporting and outcomes for the year.
- Regular engagement with Council management.

To date we have not identified a risk of significant weakness from our regular meetings with management or attendance at the Audit Committee.

03 Fees

Fees

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for DLUHC.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Final fee 2020/21	Planned fee 2020/21	Final fee 2019/20
	£	£	£	£
PSAA scale fee – Code work	81,325	81,325	81,325	81,325
Scale fee rebasing (Note 1)	73,318	73,318	73,318	68,541 (Determination by PSAA) (Note 1)
Revised proposed scale fee	**154,643**	**154,643**	**139,980**	
In-year fee variation due to additional work from reduced materiality, prior period adjustments, group accounts, going concern, pension valuations, Land & Buildings valuations within PPE & IP, the use of an expert in relation to these Land & Buildings valuations, and data preparation issues. (Note 2)	Nil	TBC	Nil	
2020/21 PSAA expected additional minimal core fees (Note 3): • ISA 540 accounting estimates (Note 3)	4,400	4,400	4,400	
• VfM commentary (Note 3)	10,000 to 19,000	10,000	10,000 to 19,000	
Total audit related fees	TBC	TBC	TBC	149,866
Non-audit work – Housing benefit subsidy claim	TBC	TBC	51,236 (est)	47,000
Total fees	TBC	TBC	TBC	196,866

Notes - Please see next page

All fees exclude VAT

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Authority; and
- The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Fees (continued)

Notes to fee table

Note 1 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £73,318. This was based on the amount of £58,655 we shared with the Council in 2019/20, uplifted for the 25% increase in PSAA hourly rates. We also submitted a further in-year fee variation of £56,528 as explained in note 2 below for the 2019/20 audit. PSAA has determined the total fee variation across both elements for 2019/20 as £68,541. We expect similar costs in nature in 2020/21 and subsequent years. However, PSAA has stated that this will need to be determined each year.

Note 2 - During 2020/21 we undertook additional work to address specific risks identified. However, as the audit is ongoing, we have not yet calculated an additional fee for discussion. For 2021/22 we expect similar additional work to be performed.

Note 3 - PSAA communicated a range of fees in August 2021 for the new requirements of the 2020 Code of Audit Practice, and the revised International Standard of Auditing 540 on Estimates. In the absence of further information, we have rolled these ranges forward for 2021/22.

04 Appendices

Appendix A

Department for Levelling Up, Housing and Communities - Measures to improve local audit delays

The following commitments are made within the Department for Levelling Up, Housing and Communities paper titled- Measures to improve local audit delays:

1. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP;
2. Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants;
3. DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements;
4. CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory;
5. DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs;
6. NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements;
7. CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards;
8. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22;
9. Delaying implementation of standardised statements and associated audit requirements;
10. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24;
11. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts, then 30 September for 6 years, beginning with the 22/23 accounts;
12. NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period; and,
13. Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.

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