Wokingham Borough Council

Audit results report

Year ended 31 March 2021

March 2023

5

Building a better working world

Agenda Item 54.

1 March 2023

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

Dear Audit Committee Members

We are pleased to attach our audit results report, updating the status of our audit for the forthcoming meeting of the Audit Committee. We presented an earlier draft of this report to the Committee in March 2022, at which point we had two significant outstanding issues: accounting for infrastructure assets and a delay in receiving assurances from the auditor of Berkshire Pension Fund. These were both outside the Council's control.

Our work is now complete, other than the ongoing delay in receiving the final assurance letter from the auditor of Berkshire Pension Fund (see page 23) and the final checks required once we have completed our work on the pension liability following receipt of the letter. We will update the Audit Committee at its meeting scheduled for 13 March 2023 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Wokingham Borough Council's accounting policies and judgements and material internal control findings. 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. We have also included an update on our work on value for money arrangements.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 13 March 2023.

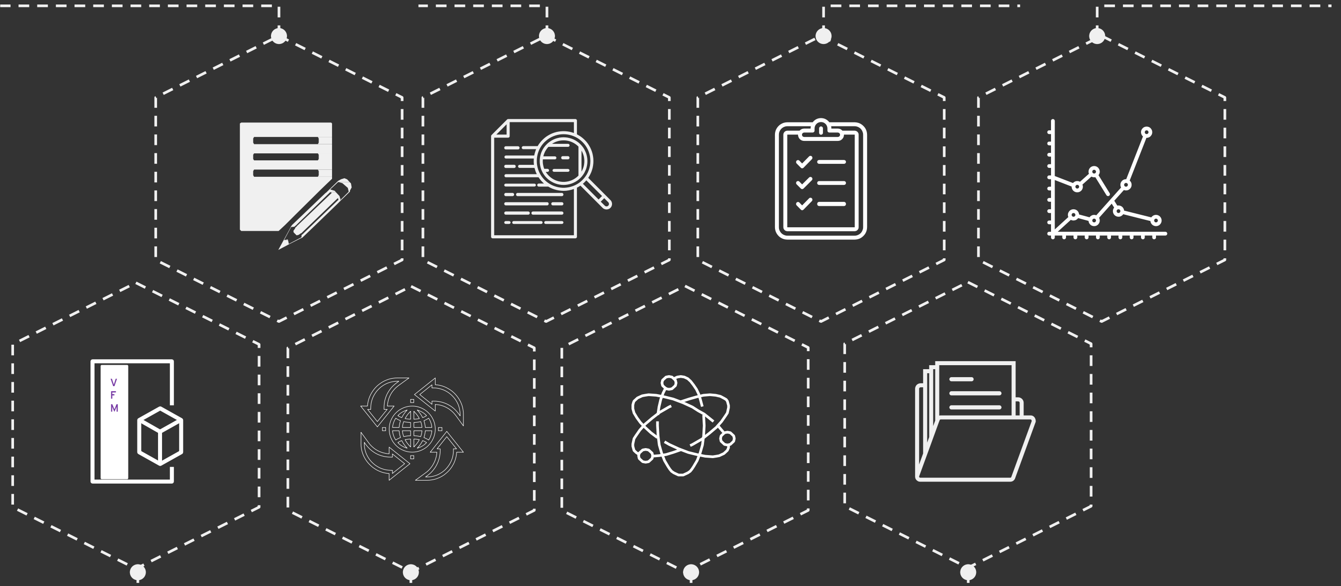
Yours faithfully

Helen Thompson, Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



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.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report and updated planning report presented to the 15 September 2021 and 30 November 2021 Audit Committee meetings respectively, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes in materiality:

- We updated our planning materiality assessment using the updated draft financial statements and also reconsidered our risk assessment. Due to the net impact of the misstatements identified in the accounting for Covid-19 grant income as detailed in section 2, we were required to revisit our materiality considerations and calculation for both the Council's single entity statements and for the Group. Based on our 2% materiality measure of adjusted gross expenditure on provision of services, we updated our overall materiality assessment for the Council to £7.68m (£8.15m in the Audit Planning Report). This results in updated performance materiality, at 75% of overall materiality, of £5.76m (£6.13m in the Audit Planning Report), and an updated threshold for reporting misstatements of £384k (£408k) in the Audit Planning Report). Details of the impact on the both the Council and Group's materiality are set out in the table below.

	Group Materiality Original-Year End	Group Materiality Revised (after C-19 grant adjustment)	Council Materiality Original -Year End	Council Materiality Revise(after C-19 grant adjustment)
Planning Materiality	£9.09m	£8.60m	£8.15m	£7.68m
Performance Materiality	£6.81m	£6.45m	£6.13m	£5.76m
Reporting Threshold	£454k	£430k	£408k	£384k

- **Additional audit procedures as a result of Covid-19**
  Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy for all local authorities were as follows:
  - **Information Produced by the Entity (IPE):** We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the 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
    - Agreed IPE to scanned documents or other system screenshots.
- Changes in risk:
  In our draft audit results report presented to the Audit Committee in March 2022, we reported a national issue associated with the accounting treatment for infrastructure assets. We provided updates at subsequent Audit Committees, including our audit progress update in September 2022. We have included this as a significant risk within this report (see page 20).

Executive Summary

Status of the audit

Our audit work in respect of the audit opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Detailed audit procedures:

- Final completion of our work on the net pension liability valuation as indicated on page 2. Should this extend beyond the end of March 2023, we will also need to work with the Council to update our work on going concern disclosures

Standard conclusion procedures:

- Final check of the updated financial statements and adjustments after completion of all outstanding procedures.
- Receipt of the signed letter of representation and financial statements.
- Completion of our subsequent procedures.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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 2020 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; and
- 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.

11

Status of the audit – value for money

In the updated audit planning report presented to the Audit Committee on 30 November 2021, we reported that we had completed our value for money (VFM) risk assessment and not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We have revisited our assessment as part of our completion of the audit of the financial statements and we remain satisfied that we have not identified a risk of significant weakness. As part of this assessment, we have considered the conclusions from our work undertaken following receipt of a whistle-blower allegation (see Section 06). We have provisionally concluded (subject to internal consultation) there is no evidence to substantiate the allegation made, and whilst the Council could improve its governance arrangements to oversee working with charities, there is no evidence of a significant weakness in the proper arrangements. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report within three months of issuing the auditor's report.

Executive Summary

Audit differences

Unadjusted misstatements:

- There are three unadjusted differences at 1 March 2023. Two of these relate to judgemental differences within the valuation of land and buildings in Property, Plant and Equipment and Investment Property. The third difference is a projected difference relating to the classification of capital receipts in advance.

Adjusted misstatements

- There are six misstatements greater than £5,756k that have been corrected by management; one of which also impacted the prior year period and has been restated in the revised financial statements.
- Throughout the audit eight further misstatements were identified which were greater than our SAD nominal amount but below our performance materiality threshold of £5,756k which have been corrected by management.

We have set out these in more detail in Section 4 – Audit Differences.

Further adjustments have been made to the draft financial statements by the Council to account for infrastructure assets in accordance with the new statutory instrument issued in this area.

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

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report as at 1 March 2023.

Executive Summary

Areas of audit focus

In our audit planning report, and subsequent update, we identified a number of key areas of focus for our audit of the financial report of the Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Fraud/Significant Risk	Findings & Conclusions
Misstatements due to fraud or error (management override) **Fraud risk** **Applicable to Council and Group** (All entities)	We have not identified any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure **Fraud risk** **Applicable to Council and Group** (Berry Brook Homes Ltd and Loddon Homes Ltd)	Our work in this area is complete. From our sample testing of additions to PPE, we have: • Found costs had been correctly classified as capital and included at the correct value. • Did not identify any revenue items that were incorrectly classified as capital. Our review of judgements taken by management found them to be reasonable. Further details are set out in Section 2 of this report.
Valuation of Land & Buildings in Property, Plant & Equipment (PPE) and Investment Properties (IP) **Significant risk** **Applicable to Council and Group** (Berry Brook Homes Ltd and Loddon Homes Ltd)	From our work performed, we have identified unadjusted judgemental differences in the value of two properties included in PPE and one property in IP. Further details are set out in Sections 2 and 4 of this report.
Accounting for infrastructure assets **Significant risk** **Applicable to Council**	Changes have been made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. The Council has chosen to adopt the statutory override and has changed its approach and disclosure in the financial statements to comply with the revised requirements. A Local Authority Accounting Panel (LAAP) bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated. Management has provided revised disclosures and supporting evidence, which we have audited. We are satisfied the Council has applied the Code amendment appropriately. We will provide an update of progress in this area to the 1 March 2023 meeting of the Committee.

Executive Summary

Areas of audit focus

In our audit planning report, and subsequent update, we identified a number of key areas of focus for our audit of the financial report of the Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Area of audit focus / Inherent risk	Findings & Conclusions
Accounting for Covid-19 related government grants (Inherent risk) **Applicable to Council**	From our work performed we have identified a number of grants that were incorrectly accounted as either the Council acting as principal instead of agent or vice versa. Further details are set out in Sections 2 and 4 of this report.
Pension Liability and Asset Valuation (Inherent risk) **Applicable to Council and Group** (Optalis)	Our work in this area has not changed significantly from the position reported in March 2022. Further details are set out in Section 2 of this report. We have liaised with the auditors of the Berkshire Pension Fund and have identified their assurance letter contained a caveat stating that their work was ongoing at the time of its issuing and that there remained a risk of material matters arising. We have continued to discuss this regularly with the auditor throughout 2022. At our most recent meeting (February 2023), the auditor has indicated the letter will be updated in March 2023, and confirmed the delay relates to the completion of the administering authority audit, not the audit of the Pension Fund. Further details are set out in Section 2 of this report.
Going Concern (Area of audit focus) **Applicable to Council and Group** (All entities)	We have reviewed management's going concern assessment and confirm their conclusion that the Council remains a going concern is based on reasonable and supportable assumptions. We have also reviewed management's going concern disclosure and confirmed it is sufficiently detailed, transparent and accurately reflects management's underlying going concern assessment.
Accounting for Public Finance Initiative (PFI) **Applicable to Council**	We reviewed the PFI entries and disclosures in the Council's accounts and concluded they are appropriately reported.
Cash and cash equivalents **Applicable to Council**	We have completed our work and concluded that limited progress had been made to ensure that the Council's imprest bank accounts within its portfolio were reconciled on a regular basis. Further details are set out in Section 2 of this report.
Group Accounting **Applicable to Council and Group**	Group consolidation was reviewed by the audit team and no material issues were identified in the audit field work.

Executive Summary

Areas of audit focus (cont.)

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

We have adopted a fully substantive approach, and so have not tested the operation of controls. We have, however, updated our understanding of the key processes and the controls which are in place to detect or prevent error. Through this work, we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

However, we have reported on a number of control observations in Section 6 of this report.

Independence

Please refer to Section 7 for our update on Independence.

02 Areas of Audit Focus

Areas of Audit Focus

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the audit procedures performed and conclusions formed for each risk.

Misstatements due to fraud or error*

Applicable to Council and Group

Significant Risk

17

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified significant risk - Inappropriate capitalisation of revenue expenditure.

Our work on estimates focussed on the valuation of land & buildings in Property Plant and Equipment (PPE) and Investment Property (IP) as significant risk and IAS19 pension estimates as areas of higher inherent risk and are reported further in this report.

What did we do?

We have performed the procedures described in our original audit plan. Please see the following page for full details.

What are our conclusions?

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

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

We have reviewed material estimates, such as the valuation of land & buildings in PPE and IP and the IAS19 pension estimate. Our work in these areas has resulted in amendment to the financial statements, but no indication of fraud was identified.

There were no unusual transactions identified.

Significant risk

Further details on procedures/work performed

We identified the key fraud risks at the planning stage of the audit and considered the effectiveness of management's controls that are designed to address the risk of fraud. We updated our understanding of the risks of fraud and the controls put in place to address them and made enquiries of Internal Audit, management and those charged with governance to support our understanding.

We have:

- Determined an appropriate strategy to address those identified risks of fraud which have been reflected in the significant risks in this document.
- 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.

We have performed mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Undertaking a detailed review of accounting estimates for evidence of bias (such as the valuation of land, buildings and investment property) and substantively testing unusual or unexpected transactions. No evidence of override was identified, and no unusual transaction have been identified from work completed to date.
- Evaluating the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work.

Having re-evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We continued to conclude that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' were required - See the next page for further details.

Significant risk

Risk of misstatements due to fraud or error – specifically in inappropriate capitalisation of revenue expenditure*

Applicable to Council and Group

Significant Risk

19

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

Capitalised revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid.

What judgements are we focused on?

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

What did we do?

Our approach focussed on:

- Testing a sample of PPE and IP additions to ensure that the expenditure incurred and capitalised is clearly capital in nature and that the transaction was supported by sufficient evidence to verify its value and the period it related to.
- Identifying and testing 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.
- Testing a sample of revenue expenditure funded from capital under statute (REFCUS), to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. As with PPE additions, we also ensured these items were supported by sufficient evidence to verify the value and the period it related to.

Areas of Audit Focus

Significant risk

What are our conclusions?

Based on the work performed:

- Our sample testing of additions to property, plant and equipment found that they had been correctly classified as capital and included at the correct value.
- Our sample testing of additions to property, plant and equipment did not identify any revenue items that were incorrectly classified.
- Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes

Significant risk

Valuation of Land & Buildings in Property Plant and Equipment (PPE) and Investment Property (IP)

Applicable to Council and Group

Significant Risk

What is the risk?

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.

Given the nature of Covid-19 and the fact that 2020/21 was predominantly influenced by local and national lockdowns, we anticipate that the valuer will not be able to conduct site visits due to the restrictions that are in place and that the valuer will have to perform a remote approach to valuing the properties which will further increase the risk around these valuations.

Several misstatements were furthermore identified in property valuations during the prior year's audit that required subsequent material adjustments to PPE and IP balances.

What judgements are we focused on?

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

What did we do?

Our approach focused on:

- Considering the work performed by the Council's internal valuer and confirmed that the scope of the work performed is adequate, they had the appropriate professional capabilities to complete the work and the results of their work is in line with our expectations.
- Consider the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions as a result of the Covid-19 pandemic.
- Challenging 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.
- Sample testing key asset information used by the valuer in performing their valuation (e.g. building areas to support valuations based on price per square metre).
- Confirming 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.
- Assessing those assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Considering changes to the useful economic lives as a result of the most recent valuations and
- Tested the accounting entries posted via journal to ensure they have been correctly processed in the financial statements.

Significant risk

What are our findings?

From our work performed, we have:

- Considered the work performed by the Authority's internal valuer and confirmed that the scope of the work performed is adequate, they had the appropriate professional capabilities to complete the work and the results of their work is largely in line with our expectations.
- Challenged the assumptions used by the Authority's valuer by reference to external evidence and our valuation specialists. This included considering significant or unusual movements in valuation and investments in areas of the economy under stress, such as retail.
- Sample tested key asset information used by the valuer in performing their valuation (e.g. building areas to support valuations based on price per square metre).
- Confirmed that the valuation was undertaken to ensure all assets required to be valued in line with the Authority's five year rolling programme had been completed, and that all investment property had been revalued in year as required by the Code.
- Assessed those assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated.

22

From our work, we are satisfied with the valuation of Land and Buildings in PPE and IP, with the exception of:

1. PPE:

   i. Valuation indexation incorrectly applied to properties already disposed of:
   The Shinfield Infant School, Westende Junior School and Keep Hatch Primary School were incorrectly included as part of the valuation indexation applied to properties after they had been disposed of. This resulted in an overstatement of £6,332k in PPE which has been corrected by management.

   ii. Classification of residential properties in the Elms Field Development:
   Through our testing of the property valuations within the Elms Field Development, we identified a number of residential properties that had been classified as operational land and buildings. These properties were constructed with the aim of being sold at market value and should therefore fall under the scope of IAS2, *Inventory*, rather than IAS16, *Property, Plant and Equipment*. These construction costs were consequently capitalised as Assets Under Construction in the current and prior years and subsequently require adjustments in both the current and prior periods to reclassify these as inventories.

   iii. Missed posting for the revaluation gain of Arborfield Gym Land :
   Arborfield Gym land and building were revalued in year by the Council's internal valuer. However it was noted that the valuation of the land was not updated in the fixed asset register, this resulted in an understatement of property, plant and equipment by £820k. Management have adjusted the fixed asset register and accounts to reflect our findings.

Significant risk

What are our findings?

iv. Council Dwelling Disclosure:

- Through testing of the Council Dwelling disclosure in Note 24 it was identified that the disclosure of both the cost and the accumulated depreciation was over stated in both the current year and the prior year. Under the CIPFA Code all accumulated depreciation should be written out on revaluation. The adjustment to the accounts results in a prior period adjustment and an adjustment to the current year draft accounts to reset the accumulated depreciation balance. There is no impact on the net book value of the Council Dwellings.

v. Use of EY Real Estate:
We asked our specialist to review 10 properties, selected from those assets revalued in 2020/21 within PPE. We challenged the valuation for 2 properties where the value fell outside a reasonable range of valuations established by EYRE for each asset:

- EYRE challenged several assumptions underpinning the Carnival Pool Multi Storey Car Park property valuation of £6.88m and disagreed with the methodology used in determining the property valuation. This valuation has not been adjusted as management is of the opinion that their valuation best reflects the value of this property at year end and their local knowledge. This valuation consequently remains above our range as determined by EYRE. As this is a difference of opinion between two professional experts, we have reported an unadjusted judgemental difference of £1.85m.
- EYRE challenged several assumptions underpinning the Civic Centre property valuation of £10.57m and disagreed with the length of void periods used in determining the property valuation. This valuation has not been adjusted as management is of the opinion that their valuation best reflects the value of this property at year end and their local knowledge. This valuation consequently remains above our range as determined by EYRE. As this is a difference of opinion between two professional experts, we have reported an unadjusted judgemental difference of £1.51m

vi. Landmark Square
Through our testing of disposals we identified that the Council had recognised capital receipts in respect of land sold during the year, but we noted that no asset value had been derecognised on disposal of the land. We enquired with management and discussed the accounting treatment for these transactions. It was noted that the land was previously held in community assets at nil value before the Council entered into an agreement with a developer to develop the land. We challenged that Council's treatment of the disposals and requested a paper outlining the Council's accounting treatment On review of this paper, we agreed with management's judgement that the asset should be treated as inventory until such time as the plots are sold and with management's judgement on how to account for the sale of each plot. Given that the asset is held at nil value, the transfer to inventory from community assets has not impacted on the face of the financial statements.

Significant risk

What are our findings?

2. IP:

   i. Use of EY Real Estate:
   We asked our specialist to review 2 assets. We challenged the valuation for 1 asset where the value fell outside a reasonable range established by EYRE for each asset:

   - EYRE challenged several assumptions underpinning the Wickes Retail Unit property valuation of £12.00m and disagreed with the yield applied in determining the property valuation. This valuation has not been adjusted as management is of the opinion that their valuation best reflects the value of this property at year end. This valuation consequently remains above our range determined by EYRE. As this is a difference of opinion between two professional experts, we have reported an unadjusted judgemental difference of £2.40m.

We assessed whether any of these differences had a wider impact on the valuation of PPE and IP, and in each case we concluded the assets had unique characteristics which allows us to conclude these judgemental differences are specific/unique to these assets.

What are our conclusions?

We are satisfied that the valuations of land and buildings in property plant and equipment and investment property are not materially misstated.

Significant risk

Accounting for infrastructure assets

Applicable to Council

What is the risk?

Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced.

Nationally, audit firms have identified an issue with applying this accounting treatment to infrastructure assets. Across the country authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out.

As reported in our Audit Progress Report, based on our initial review of the accounting treatment adopted by the Council in this area we were unable to gain assurance that all infrastructure assets accounted for in the financial statements continue to exist. This is because the Council is unable to show that assets, or components of assets, are derecognised from accounting records when they are replaced. Subsequent to this changes have been made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. A Local Authority Accounting Panel (LAAP) bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated.

We have judged this to be a significant risk.

What judgements are we focused on?

The risk is that the gross cost and gross accumulated depreciation of the Council's infrastructure assets are materially overstated, as assets or components that have been replaced are no longer recognised. This may have no impact on the net book value if the assets were fully depreciated at the point of replacement, but if not then the net book value may also be materially misstated.

Furthermore, the Council needs to be able to demonstrate that it can associate the recorded values to specific identifiable assets; that they exist at the balance sheet date and are held at an appropriate value.

What did we do?

- We have reviewed the draft financial statements to identify prima facie whether the Council is recording disposals of infrastructure assets, or components.
- We have made enquiries to understand management's current processes, including bringing forward our knowledge from previous year's audits.
- We identified whether the process is compliant with the Code.

Significant risk

What are our provisional conclusions?

We provisionally concluded that the accounting of the Council for Infrastructure Assets was not in line with the current CIPFA Local Authority Accounting Code.

- The Council records some infrastructure asset within the fixed asset register split out between types of infrastructure, i.e carriageways, footways, street furniture structure and highways lighting. The Council has confirmed that there is no write out of the old historic asset upon replacement.
- This means the Council does not have sufficient records to show that all assets accounted for actually continue to exist and that the gross cost and accumulated depreciation of infrastructure assets are not materially overstated.
- The Council concluded it was impracticable for it to make a correction.

Changes have been made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. The Statutory Instrument and Code update temporarily resolve the derecognition and existence issues identified above, and the Council has chosen to adopt the statutory override, and amended the disclosures in its financial statements to comply with the revised requirements. We are satisfied the changes made, following further minor amendments to disclosure as a result of our work, are in line with the revised Code. A LAAP bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated. Management produced an assessment of the approach taken by the Council to depreciating infrastructure assets against this guidance. We are satisfied that the approach taken by management is reasonable.

The Statutory Instrument and Accounting Code are only expected to provide a temporary solution to this issue, with the Code update only currently extending to 31 March 2025. We therefore recommend the Council should develop more granular accounting records and/or further supportable estimation techniques to allow for infrastructure assets and components to be derecognised when they are replaced, and to demonstrate the continued existence of assets accounted for.

Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusions?
Accounting for Covid-19 related government grants Applicable to Council The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.	We considered the Council's judgement on material grants received in relation to whether it is acting as: ▸ Agent, where it has determined that it is acting as an intermediary; or ▸ Principal, where the Council has determined that it is acting on its own behalf. For grants received where the Council acted as principal, we have further considered whether any associated restrictions and conditions have been met and that grants have been claimed and recognised in accordance with the scheme rules.	From our work performed we identified a number of grants that were incorrectly accounted as either the Council acting as principal instead of agent or vice versa. The net impact of this adjustment reduced gross revenue expenditure and income by £23,799k which consequently led to the revision of our materiality calculation as detailed in section 1 of this report. These adjustments however had no impact on the General Fund balance itself. Further details are set out in sections 4 of this report. Following these adjustments, we are satisfied that the accounting treatment adopted for Covid-19 related government grants was correct and accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.

Other areas of audit focus (continued)

What is the area of focus?

Net Pension Liability Valuation

Applicable to Council and Group (Optalis)

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 Berkshire Pension Fund, administered by the Royal Borough of Windsor and Maidenhead (RBWM).

The Council's pension fund liability is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £358.0m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary.

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.

What did we do?

We have:

- Liaised with the auditors of the Berkshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Wokingham Borough Council;
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Reviewed and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- Engaged our EY Pensions team to create a point estimate range based on their experience and understanding of defined benefit pension schemes.

We also considered outturn information available at the time we undertook our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We used this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments were required.

Other areas of audit focus (continued)

What are our conclusions?

As at 1 March 2023 our work in this area is well progressed with one remaining issue with the audit team to conclude.

- We liaised with the auditors of the Berkshire Pension Fund and reviewed the audit assurances received from them in mid January 2022. From these assurances we identified the following:
    - Their assurance letter contained a caveat stating that their work was ongoing at the time of issue and there remained a risk of material matters arising. We have continued to discuss this regularly with the auditor throughout 2022. At our most recent meeting (February 2023), the auditor has indicated the letter will be updated in March 2023, and confirmed the delay relates to the completion of the administering authority audit, not the audit of the Pension Fund.
- The Council requested an updated IAS19 report from the Berkshire Pension Fund actuary following the identification of a material adjustment to the Fund's Statement of Accounts. We assessed the work of the Pension Fund actuary, including the assumptions they used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors. We have also considered the relevant reviews by the EY actuarial team and have not identified any issues.
- We completed our review and testing the accounting entries and disclosures made within the financial statements in relation to IAS19 with no issues arising.
- The outcome from the EY Pension team's analysis was a difference between the actuary and EY Pensions Consulting of less than 1.5% for the Council's pension fund liability and less than 1.0% for Optalis Holdings Ltd. These both fell within our acceptable range, and provided us with corroborative assurance that the input control for the Council's actuarial model was working appropriately.

We will provide an update at the Audit Committee on 13 March 2023.

Audit risks

Other areas of audit focus (continued)

What is the area of focus?	What did we do?	What are our conclusions?
Going Concern **Applicable to Council and Group** Covid-19 has created a number of financial pressures throughout local government, increasing service demand and expenditure. The Council has incurred additional expenditure in a number of areas of its operations and has experienced some income losses. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.	We have considered the adequacy of the Council's going concern assessment and its disclosure in the accounts by: ▸ Challenging management's identification of events or conditions impacting going concern. ▸ Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias). ▸ Reviewing the cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern. ▸ Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern. ▸ Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.	Management's going concern assessment covers the period up to 31 March 2024. We have reviewed management's going concern assessments and confirm that their conclusion that the Council remains a going concern is based on reasonable and supportable assumptions. From our initial review of the going concern disclosure we identified areas for improvement which were addressed by management in its subsequent disclosure of the going concern. Based on our work performed the revised going concern disclosure is sufficiently detailed, transparent and accurately reflects management's underlying going concern assessment.

Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusions?
Accounting for Public Finance Initiative (PFI) **Applicable to Council** The Council has one waste PFI arrangement with the Waste Recycling Group RE3 Limited. This is a joint PFI contract entered into with Reading and Bracknell Forest Councils in 2006/07 for the disposal of waste. The total outstanding value of the contract is estimated to be £101.5m as at 31 March 2021, to be shared between the Councils based on usage. Actual payments are based on the contractor's performance as well as that of the individual councils in waste collection. Estimated payments to be made by Wokingham Borough Council under the contract are £37.8m over the next 15 years of the contract. As part of the contract, the contractor built a transfer station, materials recycling facility, civic amenity site and offices. The Council's share of the assets, valued at £6.4m as at 31 March 2021, are recognised as Property, Plant and Equipment on the Council's Balance Sheet. The liability resulting from the contract, at the end of March 2021, was reported as £5.3m.	PFI is a complex area and we commissioned a detailed review of the RE3 arrangements, for the three councils involved, namely Bracknell Forest, Reading and Wokingham Borough Councils as part of the 2018/19 audit. Work conducted by our PFI specialist in 2018/19, included: ▸ a review of the assumptions used in the RE3 PFI accounting model; and ▸ comment on local adjustments, if any, by Wokingham Council, made to the output from the RE3 model held by the host council, Reading Borough Council. For the 2020/21 audit, our work focused on: ▸ reviewing of the assumptions used in the Waste PFI accounting model; ▸ commenting on local adjustments, made by the Council, following any changes to the accounting model held by the host council, Reading Borough Council; ▸ reviewing the planned entries and disclosures for the Council's 2020/21 accounts.	Based on our work performed we have no issues to report as we found that the PFI entries and disclosures for the Council's 2020/21 accounts are appropriate.

Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusions?
Cash and cash equivalents **Applicable to Council** There are a number of imprest bank accounts to the value of £1.5m within the Council's current portfolio included in Cash and Cash Equivalents of £131.3m as at 31 March 2021. In the prior year these imprest bank accounts contained a number of unreconciled differences between the Council's accounting records and statements from the relevant financial institutions. Although these differences were not material, there is a risk relating to appropriate record keeping and prevention of undetected irregularities in the absence of these reconciliations performed on a regular basis.	We have increased our focus on these imprest bank accounts to confirm that regular bank reconciliations are performed to ensure that there are no unexplained differences between the Council's accounting records and statements from the relevant financial institutions.	Based on our work, limited progress has been made by the Council to ensure that regular bank reconciliations are performed and that there are no unexplained differences between the Council's accounting records and statements from the relevant institutions. Although the unexplained differences remained in 2020/21 the difference of £145k remains below our reporting thresholds. We have repeated our control finding from last year on this in Section 7.

Audit risks

Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusions?
Group Accounting **Applicable to Council and Group** IFRS 10, 11 and 12 set out the requirements which must be followed when assessing and disclosing group and joint arrangements. Where the Council has interests in other entities, it needs to undertake qualitative and quantitative assessments to inform its decisions as to whether group accounts are required. The Council is therefore required to prepare group accounts which involves consolidating the financial statements of its following 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. During the prior year, misstatements in group consolidation entries and workings, group cash flow calculations, and the misalignment of accounting policies between the group accounts and those of the subsidiaries required numerous corrections to the consolidated group accounts. This is consequently an area of potential complexity and judgment requiring regular review.	Our approach focused on: ▸ Considering if these subsidiaries are individually material or significant to the group, and classify them either full or specific scope audits; ▸ Requesting that the auditors of these subsidiaries (Hazlewoods Ltd for Optalis Holdings Ltd; and Haslers for WBCH Ltd and its subsidiaries) undertake a programme of work; ▸ Seeking assurances from the auditors of these subsidiaries to ensure their 2020/21 financial statements do not contain material misstatements which may impact the consolidated group financial statements; ▸ Reviewing consolidation entries and workings to ensure that financial performances and balances of the four subsidiaries have been appropriately consolidated into the Council's financial statements; and ▸ Reviewing the Group Cash Flow Statement in the consolidated group financial statements and its workings to ensure appropriate disclosure in accordance with IAS 7.	From our completed work, we have: ▸ <u>Optalis:</u> We have reviewed the work carried out by Hazlewoods Ltd and have no issues to report. ▸ <u>WBC Holdings Ltd:</u> We have reviewed the work carried out by Haslers Ltd and have no issues to report. ▸ <u>Group Consolidation:</u> We note that in the first draft of the accounts the group statements and disclosures where not included. Management have subsequently provided workings for the consolidation entries. We have reviewed the consolidation entries and underlying workings and have not identified any amendments to the workings provided by management.

03 Audit Report

Draft audit report

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WOKINGHAM BOROUGH COUNCIL

Opinion

We have audited the financial statements of Wokingham Borough Council ('the Council') and its subsidiaries (the 'Group') for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the Authority Comprehensive Income and Expenditure Statement, Group Comprehensive Income and Expenditure Statement, Authority and Group Movement in Reserves Statement, Authority and Group Balance Sheet, Authority and Group Cash Flow Statement and the related notes 1 to 48; Housing Revenue Account Income and Expenditure Statement, Movement on the HRA Statement and the related notes 1 to 13; the Collection Fund and the related notes 1 to 3; and the Authority and Group Statement of Accounting Policies.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of Wokingham Borough Council and the Group as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Deputy Chief Executive's (S151 Officer) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Council's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Deputy Chief Executive (S151 Officer) with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Council and Group's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts for the year ended 31 March 2021 other than the financial statements and our auditor's report thereon. The Deputy Chief Executive (S151 Officer) is responsible for the other information contained within the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

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Draft audit report (cont.)

Our draft opinion on the financial statements

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Council
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014
- we are not satisfied that the Group and the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Deputy Chief Executive (S151 Officer)

As explained more fully in the Statement of the Deputy Chief Executive's (S151 Officer) Responsibilities set out on page 15, the Deputy Chief Executive is responsible for the preparation of the Statement of Accounts, which includes the Group and Council, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Deputy Chief Executive determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Deputy Chief Executive is responsible for assessing the Group and the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Council either intends to cease operations, or has no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Draft audit report (cont.)

Our draft opinion on the financial statements

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Council and determined that the most significant are:

- Local Government Act 1972,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Education Act 2002 and School Standards and Framework Act 1998 (England)
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018,2020 and 2021,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
- The Local Government Finance Act 2012
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Group and the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Wokingham Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring head of internal audit, those charged with governance, the monitoring officer and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Group and the Council's committee minutes, through enquiry of employees to confirm Group and the Council policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Group and the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance (through improper recognition of revenue), inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Group and the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately. In addition, we assessed whether the judgements made in making accounting estimates were indicative of a potential bias and evaluated the business rationale of any significant transactions that are unusual or outside of the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether the Wokingham Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Wokingham Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Draft audit report (cont.)

Our draft opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Wokingham Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2021. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Wokingham Borough Council as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and Council and the Group and Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen Thompson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
Date]

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £5.76m as at 1 March 2023 which will be corrected by management that were identified during the course of our audit:

Corrected misstatements 31 March 2021 (£'000)	Effect on the current period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)
Errors						
Known differences:						
▸ **Incorrect accounting treatment of the Grants received** The following grants were incorrectly recognised either the Council being the principal instead of agent or vice versa ▸ Business support Grant (Recognised as principal instead of agent)		Income 19,205 Expenditure (19,205)				
▸ LRS Grant (Recognised as principal instead of agent)		Income 7,278 Expenditure (7,278)				
▸ Infectious Control Grant (Recognised as agent instead of principal)		Income (2,684) Expenditure 2,684				

(Continued on next page)

Audit Differences

Summary of adjusted differences (Cont.)

We highlight the following misstatements greater than £5.76m which have been corrected by management that were identified during the course of our audit:

Corrected misstatements 31 March 2021 (£'000)	Effect on the current period:		Net assets (Decrease)/Increase				
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)	Equity Components Debit/(Credit)
Errors							
Known differences:							
▸ **Valuation indexation incorrectly applied to properties already disposed of** The Shinfield Infant School, Westende Junior School and Keep Hatch Primary School were incorrectly included in the valuation indexation applied to properties after their disposal.	4,178	2,154		(6,332)			
▸ **Incorrect classification of properties developed to be sold at market value:** Construction costs pertaining to the development of the Elms Field Development has been incorrectly classified as Assets Under Construction in PPE instead of Inventories	10,776	10,326	(5,340)	(15,762)			
▸ **Reclassification of the dedicated schools reserve deficit from usable to unusable reserves in line with the statutory instrument**							Unusable 5,826 Usable (5,826)
Total	14,954	£12,480k	(5,340)	(22,096)			

We note that although the impact of these adjustments affects the comprehensive income and expenditure statement, there is no impact on the general fund as the entries are reversed through the movement in reverses, as part of the adjustments between accounting basis & funding basis under regulations.

Audit Differences

Summary of adjusted differences (Cont.)-Prior Period impact

We highlight the following misstatements greater than £5.76m which have been corrected by management that were identified during the course of our audit:

Corrected misstatements 31 March 2021 (£'000)	Effect on the Prior Period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)
Errors						
Known differences:						
42 **Reclassification of properties developed to be sold at market value:** Construction costs pertaining to the development of the Elms Field Development were classified as Assets Under Construction in PPE rather than as Inventories.		98	14,895	(14,797)		

Audit Differences

Summary of adjusted differences (Cont.)

We highlight below the corrected misstatements identified throughout the audit which are greater than our SAD nominal amount but below £5.76m

- Reclassification of revaluation entries between other comprehensive income and other expenditure of £2.9m
- Reclassification of council tax receipts in advance from debtors to creditors of £2.7m
- Reversal of a schools adjustment between income and expenditure of £2.0m
- Reclassification of credit balances included in debtors to creditors of £1.1m
- Reclassification of HRA income to expenditure of £1.4m
- Adjustment to account for the valuation gain in Arborfield Gym Land of £0.8m
- Revaluation downwards of PPE due to double counting of council dwellings of £0.7m
- Overstatement of cash and creditors balances as a result of imprest accounts of £0.26m

Further adjustments have been made to the draft financial statements by the Council to account for infrastructure assets in accordance with the new statutory instrument issued in this area.

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

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

44

Uncorrected differences 31 March 2021 (£'000)	Effect on the current period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)
Projected differences:						
Capital Receipts in Advance Projected difference in the incorrect classification of receipts during the financial year under review.		(1,415)				1,415
Judgemental differences:						
▸ **Land and Buildings included in PPE** Judgemental differences identified in the valuation of Land and Buildings included in PPE	3,360			(3,360)		
▸ **Land and Buildings included in IP** Judgemental differences identified in the valuation of Land and Buildings included in PPE		2,400		(2,400)		
▸ **Goodwin Impact**	1,200					(1,200)

05 Value for Money

Value for money

The Council's responsibilities for value for money (VFM)

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.

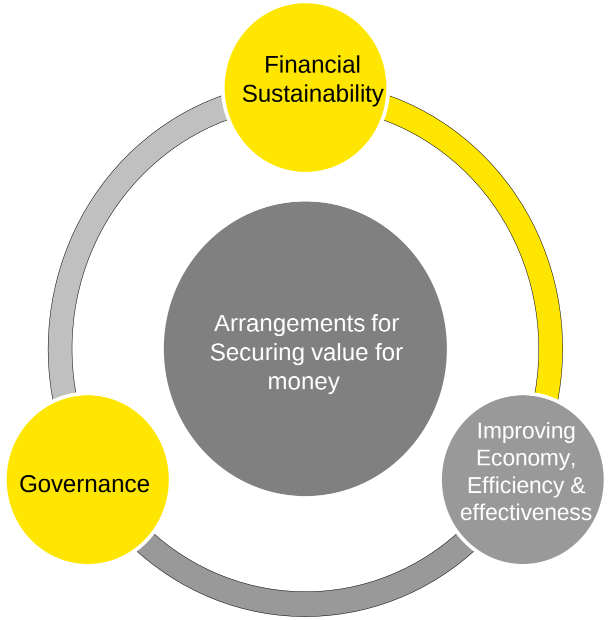
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

We have previously reported to the Audit Committee the outcome of our assessment of the risk of significant weaknesses in the Council's VFM arrangements - that we had not identified any risks. We have revisited our risk assessment and have not identified any additional risks. As part of this assessment, we have considered the conclusions from our work undertaken following receipt of a whistle-blower allegation (see Section 06). We have provisionally concluded (subject to internal consultation) there is no evidence to substantiate the allegation made, and whilst the Council could improve its governance arrangements to oversee working with charities, there is no evidence of a significant weakness in the proper arrangements. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

Status of our VFM work

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report. This will be within three months of issuing the auditor's report.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement
We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts
Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. We have no issues to raise.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

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

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

<u>Any significant difficulties encountered during the audit:</u>

- The 2020/21 financial statements audit has taken longer than anticipated due to issues arising from our work on the valuation of Land & Buildings in PPE and IP and Pension Liability and Asset Valuation as detailed in section 2 and 4 above, as well as the sector-wide impact by the Covid-19 pandemic and working offsite. We have reported our findings to date with all necessary adjustments affected to the financial statements. We recognise this has been an very challenging year for the Council and its finance team as they have continued to be stretched in their response to Covid-19 issues.

- The auditors of the Berkshire Pension Fund provided the Council's IAS19 employee benefit local government Pension Fund assurances in mid-January 2022. As detailed in section 2 above, these assurances contained a caveat stating that their work was ongoing at the time of its issuing and that there is still a risk of material matters arising. We have continued to liaise regularly with the auditor of the Pension Fund, but as at the date of issuing our updated audit results report, we have not yet received an updated letter. We expect this issue to impact the 2021/22 and 2022/23 audits, and we will continue to hold regular meetings with the Pension Fund auditor.

Other issues

The issue and what did we do?

Any significant matters arising from the audit that were discussed with management:

Related party transactions:
Our testing of related party transactions identified errors in the disclosures which have been corrected by management in the revised financial statements. We noted that 10 Council members and 19 officers did not complete a related party return. We carried out extended testing, including a search of Companies House, for all missing declarations and did not identify any issues. However, we recommend the Council puts improved quality assurance checks in place to ensure the completeness of related party returns.

Minimum Revenue Provision (MRP):
Wokingham Borough Council are required, under the 2003 Local Government Act, to charge Minimum Revenue Provision (MRP) to its revenue account in each financial year. In calculating a prudent provision, local authorities are required to have regard to statutory guidance issued periodically by DLUHC.

DLUHC consider that the methods of making prudent provision include the options set out in its guidance but does not rule out or preclude a local authority from using alternative methods of making prudent provision should it decide that is more appropriate. Whilst the Council has accounted for MRP in line with its own policy, this is not fully aligned to the suggested approach outlined in the regulations as:

1. The Council's policy does not require a charge for MRP on capital loans.
2. Only 10% of the investment property expenditure is being repaid through its MRP charge.
3. No charge is applied to capital expenditure for which funding is expected in future years.

The policy has been agreed by Council with delegation to the Section 151 Officer, and Regulation 28 states it is for the Council to determine what constitutes a minimum revenue provision. However, in the light of expected revised guidance from DLUHC, the Council will need to review its current policy to ensure it meets future legislative requirements and good practice.

Capital Receipts in Advance:
Wokingham Borough Council recognises Section 106 grants and contributions in accordance with the Code requirements as either revenue or receipts in advance depending on conditions and restrictions attached to it. During our testing of the section 106 grants that were accounted for as Capital Receipts in Advance in the Council's Statement of Accounts, we identified two representative items incorrectly recognised as capital receipts in advance instead of revenue. We extended our testing on this balance to assess the extent to which this could indicate a misstatement within the untested population, the uncorrected projected difference of £1.4m identified from our audit procedures is shown in section 4 of this report.

Whistle-blower allegation:
In October 2022, we received an anonymous whistle-blowing allegation. In agreement with the Council, we engaged a specialist to assist the audit team in evaluating and investigating the allegations made. Our work is in its final stages and we expect to complete this, subject to internal consultation, before the Audit Committee on 13 March 2023. Based on our work to date, we have not identified a significant weakness in the proper arrangements to secure value for money. However, we expect to report areas for improvement in our Auditor's Annual Report which will be completed within three months of issuing the auditor report on the financial statements.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

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 have the following issues to bring to your attention.

<u>Quality of the Statement of Accounts:</u>

Although the Council published its Statement of Accounts published by the 30 July 2021, these had gaps in disclosed information due to the ongoing audit and finalisation of the 2019/20 Statement of Accounts at that stage. The finance department further continued to experience capacity constraints during the year with finance officers stretched during the preparation of these accounts. We are aware the Council has reviewed finance staff capacity and is recruiting new staff to improve resilience within the finance team. We have also agreed that we will carry out a review of the 2020/21 audit to assess what worked well, and what we can jointly improve, to ensure a smoother and more timely audit. Taken together, these measures should reduce the amount of time required for the audit.

<u>Amendment to the cyclical PPE valuation programme</u>

Following on from the 2020/21 audit, we understand that management still propose to employ an external valuer to value the Council's PPE assets for the 2021/22 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.

<u>Bank reconciliations of imprest bank accounts</u>

Improvements to the processing and reconciliation of imprest bank accounts in the Council's portfolio were limited as these reconciliations were not performed on a regular basis which resulted 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.

Financial controls

Accounting for Capital Projects

In recent years the Council has undertaken significant capital projects within Wokingham Town Centre, some of these projects consist of construction of multiple individual assets with a range of purposes. As noted on slide 34, an amendment was required in the 2020/21 and 2019/20 accounts, this was due to residential units being incorrectly classified as property, plant and equipment. We would recommend that the Council considers specific accounting treatment and classification for each asset constructed of part of a wider capital project; and where necessary the Council should seek external guidance/consultation to support the proposed accounting treatment.

Infrastructure Assets and Maintaining Records

CIPFA provided an update to the Code and specifications for future Codes for Infrastructure Assets in November 2022. The publication is an update to the 2021/22 Code, but it also updates the 2022/23 Code and will apply to subsequent years until the 2024/25 Code. Amendments to Section 4.1 of the Code include a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applied from the 2021/22 Code up to and including the Code applicable to the 2024/25 financial year.

As this is only a temporary relief we recommend the Council utilise the time available to review the underlying records it holds for infrastructure assets to be able to support the gross book value and accumulated depreciation balances going forward.

07 Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees that are due to us for the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final fee 2020/21	Planned fee 2020/21	Final Fee 2019/20
55	£	£	£
PSAA Scale Fee – Code work	81,325	81,325	81,325
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	73,319	73,319	
Revised Proposed Scale Fee	**154,644**	**154,644**	
2019/20 fee variation approved by PSAA (Note 2)	-	-	68,541
2020/21 PSAA expected additional minimal core fees (Note 3): • VFM • ISA 540 accounting estimates	TBC	10,000 11,500	-
2020/21 proposed fee variation - other (Note 4)	TBC	-	-
Total Scale Fee Variation	TBC	167,144	149,866
Non-audit work – Housing Benefit Subsidy claim	67,326	51,236 (est)	47,000
Total fees	TBC	218,380	196,866

Continued over

Relationships, services and related threats and safeguards

Note 1:

We outlined in our 2019/20 Annual Audit Letter (AAL) the basis on which the scale fees are set by PSAA. We also outlined a combination of factors which mean that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity and therefore it endangers the sustainability of local audit in the future.

Based on these factors, and in light of requests from PSAA to provide further detailed analysis we have estimated the impact on the Council, which has been shared with management but we did not reach agreement on that rebasing. The 2019/20 estimated fee increase of £58,655 has been uplifted by 25% to reflect the change in PSAA charge rates. For 2020/21, this proposed fee is £73,319 and it will be submitted to PSAA for review, alongside the proposed in-year fee variation for the work completed in 2020/21.

Note 2:

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 undertook additional work at a fee of £56,411 to deliver the audit in 2019/20. These additional fees were accepted by the Deputy Section 151 Officer in October 2021. PSAA determined the total fee variation across both elements (ie the rebasing fee of £58,655 plus the in year variation of £56,411) for 2019/20 as £68,541. We expect similar costs in nature in 2020/21 and subsequent years. PSAA has stated that this will need to be determined each year.

Note 3:

In August 2021, PSAA published 'Additional information for 2020/21 audit fees'. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes of a range of new and updated audit requirements. The figures included here are the minimum additional fee ranges set out in this document.

Note 4:

Any further additional fees (over and above VFM and ISA540) for 2020/21 will be communicated to the Section 151 Officer following the completion of the audit.

Other communications

EY Transparency Report 2022

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

EY UK 2022 Transparency Report | EY UK

08 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement 59	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report presented to the Audit Committee on 15 September 2021.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report presented to the Audit Committee on 15 September 2021.
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about Wokingham Borough Council's ability to continue for the 12 months from the date of our audit report.
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management	Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.
Subsequent events	▶ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.
Fraud	▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility.	Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.
Independence 61	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report presented to the Audit Committee on 15 September 2021. Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.
Fee Reporting	▸ Breakdown of fee information when the audit planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Planning Report presented to the Audit Committee on 15 September 2021. Draft Audit Results Report presented to the Audit Committee on 30 March 2022, and this Report presented on 13 March 2023.

Management representation letter

Management Representation Letter

[To be prepared on the entity's letterhead]

[Date]

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

63

This letter of representations is provided in connection with your audit of the consolidated and Council financial statements of Wokingham Borough Council ("the Group and Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and Council financial statements give a true and fair view of the Group and Council financial position of Wokingham Borough Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and the Council, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our consolidated and Council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and for the Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and Council financial statements. We believe the consolidated and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and for the Council, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. We have approved the consolidated and Council financial statements.

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

4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Group and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Council that are free from material misstatement, whether due to fraud or error.

Management representation letter

Management Rep Letter

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and Council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

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

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

64

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

   - involving financial statements;
   - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
   - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
   - involving management, or employees who have significant roles in internal controls, or others; or
   - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and Council financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of the Council, the Executive Committee and the Audit Committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting of the Council on 16 February 2023; Executive Committee on 26 January 2023; and Audit Committee on 13 March 2023.

Management representation letter

Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and Council financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

7. From the date of our last management representation letter 6 August 2021 through the date of this letter we have disclosed to you any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact on the Group and Council financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and Council financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 33 to the consolidated and Council financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Section 11, Note 1 to the consolidated and Council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. There have been no subsequent events to the consolidated and Council financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to year end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

Management representation letter

Management Rep Letter

G. Group Audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst the Council, subsidiary undertakings and associated undertakings.

H. Other information

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

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

I. Comparative information – comparative financial statements

1. In connection with your audit of the comparative consolidated and Council financial statements for the year ended 31 March 2020, we represent, to the best of our knowledge and belief, the following:

The following prior period adjustments have been identified during the preparation of the 2020/21 financial accounts. These adjustments relate to the following and have been adjusted in the financial statements.

The areas of adjustments relate to:

- Town centre regeneration development, Elms Field and Rose Street assets. Any assets which have been constructed solely for market sale had been recognised as property, plant and equipment however under the accounting code, these assets should be treated as current assets, inventories. Any costs, depreciation and revaluations associated with these assets have been reversed in the comprehensive income and expenditure statement (CIES), movement in reserves statement (MIRS) and the balance sheet with the assets now being shown under inventories (see note 49).

- Treatment of accumulated depreciation and impairments on the housing revenue account assets. On revaluation of assets, accumulated balances need to also be written out as part of the revaluation movement. This had previously not been completed and has been corrected. There is no impact on the comprehensive income and expenditure statement (CIES), movement in reserves statement (MIRS) and the balance sheet. The net book value of the assets are unchanged. The only adjustment is within note 24 between the “cost / valuation” and “accumulated depreciation and impairment balances”.

The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of this (these) restatement(s) has (have) also been included in the current year's consolidated and Council financial statements.

J. Ownership of Assets

1. Except for assets recognised as right-of-use assets in accordance with IFRS 16 Leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council’s assets, nor has any asset been pledged as collateral, other than those that are disclosed in Note 28 to the financial statements. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

Management representation letter

Management Rep Letter

K. Reserves

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

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, investment property, HRA properties and IAS19 pension fund liability, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Estimates

i. Valuation of Land & Buildings in Property, Plant & Equipment (PPE) and Investment Properties (IP)

ii. Pension liability and asset valuation

1. We confirm that the significant judgments made in making the valuation of land and buildings in Property, Plant & Equipment (PPE) and Investment Properties (IP) and Pension Liability and asset valuation, we have taken into account all relevant information and the effects of the COVID-19 pandemic on of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of land and buildings in Property, Plant & Equipment (PPE) and Investment Properties (IP) and Pension Liability and asset valuation.

3. We confirm that the significant assumptions used in making the valuation of land and buildings in Property, Plant & Equipment (PPE) and Investment Properties (IP) and Pension Liability and asset valuation appropriately reflect our intent and ability to carry out these valuation on behalf of the entity.

4. We confirm that the disclosures made in the consolidated and Council entity financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic are complete and are reasonable in the context of the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 We confirm that appropriate specialized skills or expertise has been applied in making the valuation of land and buildings in Property, Plant & Equipment (PPE) and Investment Properties (IP) and Pension Liability and asset valuation We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent entity financial statements , including due to the COVID-19 pandemic.

N. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

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Graham Ebers

(Deputy Chief Executive & S151 Officer)

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Councillor Rachel Burgess

(Chair of the Audit Committee)

Appendix F

Implementation of IFRS 16 Leases

In previous reports to the Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2024, unless the Council chooses to apply the standard early. However, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the council will be fully compliance with the 2024/25 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures
Data collection	Management should: ▸ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▸ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases ▸ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The Council needs to agree on certain policy choices. In particular: ▸ Whether to adopt a portfolio approach ▸ What low value threshold to set and agree with auditors ▸ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components ▸ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the council is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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