

AUDIT COMMITTEE

3 December 2013

ANNUAL AUDIT LETTER 2012/13

REPORT OF CHIEF FINANCE OFFICER

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RECENT REFERENCES:

AUD068: Audit Results Report for the year ended 31 March 2013

EXECUTIVE SUMMARY:

Ernst and Young have now presented the Annual Audit Letter for 2012/13, which is appended.

The presentation of this letter marks the conclusion of the external audit work in relation to the 2012/13 financial year. The letter has been discussed with officers. As required by Regulations, the Annual Audit Letter has been made available to all members before 30 November 2013.

RECOMMENDATION:

That the Audit Committee confirm their acceptance of the Annual Audit Letter.

OTHER CONSIDERATIONS:

1 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS
(RELEVANCE TO):

External Audit findings contribute to the corporate governance arrangements of Winchester City Council, which in turn supports the achievement of the objectives of the Sustainable Community Strategy and Change Plans.

2 RESOURCE IMPLICATIONS:

2.1 The external audit work was completed within the planned fees of £74,214 for the audit work.

3 RISK MANAGEMENT ISSUES

3.1 The effective working of the Audit Committee is a critical component in the corporate governance arrangements of the Council, and plays a key role in the overall risk management arrangements of the Council.

BACKGROUND DOCUMENTS:

None

APPENDICES:

Appendix 1 – Annual Audit Letter

Winchester City Council

Year ending 31 March 2013

Annual Audit Letter

October 2013



Building a better
working world

The Members
Winchester City Council
City Offices
Colebrook Street
Winchester
SO23 9LJ

25 October 2013

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Winchester City Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.


We have already reported the detailed findings from our audit work to those charged with governance of Winchester City Council in the following reports:

Winchester City Council Audit Results Report for the year ended 31 March 2013	Presented to members of the Audit Committee on 24 September 2013
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The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Winchester City Council for their assistance during the course of our work.

Yours faithfully



Kate Handy
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission.

The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 3 June 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Winchester City Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland)	On 30 September 2013 we issued an unqualified audit opinion in respect of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 30 September 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 16 September 2013 we issued our report in respect of the Authority. We presented the report to the 24 September 2013 committee meeting.
Report to the National Audit Office (NAO) on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the NAO on 3 October 2013. There were no issues to highlight to the NAO.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE	No issues to report.

guidance.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	We issued our audit completion certificate on the 3 October 2013 after having completed our Whole of Government Accounts work and reported to the NAO.

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 30 September 2013.

Authority's financial statements

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

Our main findings in relation to the areas of risk included in our Audit Plan are set out below.

Other financial statement risks:

Risk of misstatement due to fraud and error:

Issue:

- ▶ Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk

Finding:

- ▶ We carried out the procedures highlighted in our Audit Plan, and had no findings to report.
-

There were a few identified errors in the draft financial statements, none of which were material or significant enough to report to members.

We reported a non-material uncorrected error within the financial statements which Management decided not to amend. In our view the sums involved in the correction of errors identified during the migration to the CIPFA fixed asset register did not warrant their treatment as a Prior Period Adjustment (PPA) under IAS8. The Audit Committee agreed with Management, and approved the financial statements without this correction.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 30 September 2013.

Areas of focus:	Key findings
Financial resilience	<ul style="list-style-type: none"> ▶ The Authority closely managed its financial performance during 2012/13, under spending against the planned budget by £2.7m. This has enabled the Council to add £1.9m to the major investment reserve, and carry forward £0.8m to fund departmental spending bids. ▶ The medium term projections show a General Fund deficit of £1.17m in 2014/15 which increases cumulatively to £2.87m in 2015/16, and to more than £5.77m in 2018/19. The Council is therefore focussing on identifying savings, efficiencies and additional income to meet the 2014/15 deficit and on identifying potential initiatives to reduce the projected cumulative budget deficit from 2015/16 to 2018/19. Budget considerations are to be presented to members in October 2013 ▶ Earmarked revenue and capital reserves are expected to reduce in the medium term. Therefore the Authority intends to make annual contributions to reserves, so that it will have sufficient reserves to meet the future liabilities identified in its asset management plan. ▶ General fund balances continue to be maintained at £2m in line with the medium term financial strategy. <p>The Authority should continue to focus on actions to reduce costs, make savings and efficiencies and to restore earmarked reserves.</p>
Securing economy, efficiency and effectiveness	<ul style="list-style-type: none"> ▶ The Council monitors the performance of its services and continues to seek alternative ways of service delivery that meet users' needs in an efficient and effective manner. This is being achieved through, for example, joint working with other authorities and private sector partners on the environmental services contract. ▶ Internal challenge has continued and savings of £0.15m pa have been identified from the next stage of organisational development and £0.2m pa from the '1Team' initiative. ▶ Consultation has been held with users, partners and stakeholders to help shape the delivery of services that are relevant and effective. ▶ Members have been briefed on the key changes to local government finance and legislation, including the retention of business rates, the localisation of council tax support and the cap on council tax increases. The Council has also considered the implications for its governance arrangements of the abolition of the Standards Board and the general power of competency. ▶ The Council is aware of the service and financial challenges that it faces in the medium term. It should continue to focus on how these can be addressed in the current economic climate, while maintaining services that meet users' needs. <p>We have no issues to report in relation to this criteria.</p>

2.3 Objections received

We did not receive any objections to the Authority's 2012/13 financial statements from members of the public.

2.4 Whole of government accounts

We reported to the National Audit office on 3 October 2013 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts.

The Authority's submission falls under the thresholds for a full consistency check, therefore we were only required to review the consistency of the submission to the audited financial statements for:

- ▶ property, plant and equipment; and
- ▶ pensions liabilities.

We did not identify any areas of concern.

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

We completed this work and did not identify any areas of concern.

2.6 Use of other powers

We identified no issues during our audit that would necessitate using powers under the Audit Commission Act 1998, including reporting in the public interest.

3. Control themes and observations

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 communicate to those charged with governance at the Authority, as required, significant deficiencies in internal control.

There were no matters that we identified during the 2012/13 audit that we concluded are of sufficient importance to merit being reported.

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