

Winchester City Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



Building a better
working world



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The Members
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26 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 annual results report to the 24/09/2015 Audit Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for the Winchester City Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours sincerely

K.L.Handy
Executive Director
For and on behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 Annual Audit Letter 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 2014/15 audit work was undertaken in accordance with the Audit Plan issued on 10 June 2015 and was 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 Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for having 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, and on the consistency of other information published with them;
- reviewing and reporting by exception on the Council’s AGS;
- forming a conclusion on the arrangements the Council has to secure economy; efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Winchester City Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 28/09/15 we issued an unqualified audit opinion on the Council’s financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 28/09/15 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 28/09/15
Consider the completeness of disclosures on the Council’s AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Report was presented on 24/09/15 to the Audit Committee

Issued 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.

Issued on 28/09/15

In January 2016 we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council'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 and issued an unqualified audit report on 28/09/15.

Our detailed findings were reported to the 24/09/15 Audit Committee.

In our view, the process for producing the accounts and the draft statements that were presented for audit were of a good standard.

The main issues identified as part of our audit were:

Significant risk: Management override

We tailored our audit procedures to reflect the fact that management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our approach focused on:

- ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ reviewing accounting estimates for evidence of management bias, and
- ▶ evaluating the business rationale for significant unusual transactions.

From the work carried out we found no evidence of management bias or override of controls.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 28/09/15.

We noted the following issues as part of our audit.

Significant vfm risk 1 – financial resilience – Medium Term Financial Planning

Financial pressures in the public sector continue to mount. As a result of these significant pressures there is increased focus on the financial resilience of Local Government. Our approach focussed on:

- Reviewing achievement against the 2014/15 budget; and
- Reviewing the reasonableness of the assumptions made in the 2015/16 budget and MTFS to 2019/20

Our findings are summarised below.

The Council's general fund cost of services was £2.7m lower than planned in 2014/15. This enabled the Council to transfer £3.6m to general fund reserves.

The Medium Term Financial Strategy (MTFS) contains details of the main challenges affecting the Council's finances over the next few years and indicates how the Council will respond to these. It provides the overall framework for the financial investment in services from 2015/16 to 2019/20.

The MTFS appears robust. It is based on reasonable assumptions including future levels of government grant income, inflation and the revenue impact of capital schemes. The budget for 2015/16 was balanced without the need for additional savings and after predicted transfers to reserves amounting to £1.4m. However, the MTFS identifies a cumulative deficit before transfers to reserves amounting to £1.15m in the period to 2017/18 that will require savings to be made. Officers have recognised that the Council's revenue budget is dependent on the continued receipt of New Homes Bonus and have prepared a report for Members explaining the options should this source of funding be reduced or withdrawn. Plans to address the £0.05m deficit before transfers to reserves, by making savings in 2016/17, will be identified prior to the conclusion of the budget setting process in early 2016.

Total General Fund earmarked reserves have almost doubled over the last two years and at the end of 2014/15 the Council held £2m in General Fund reserves and £16.5m in earmarked General Fund reserves. This level of balances gives the Council the time to crystallise the savings required over the next few years.

Significant vfm risk 2 – Response to the Silver Hill judicial review

The Council's decision not to carry out a procurement exercise under EU Directive 2004/18/EEC and the Public Contracts Regulations 2006, having varied the terms of the Silver Hill Development Agreement, has been held to be unlawful following a Judicial review that was concluded in February 2015. The planned development of the Silver Hill area has therefore been delayed. This judgement raised risks for the value for money conclusion about the arrangements to ensure the legality of expenditure on major contracts. The Council has commissioned an independent review into the decisions taken concerning the Silver Hill development. Our work confirmed that:

- the expenditure and income received by the Council in relation to the Silver Hill scheme during 2014/15 did not include any amounts that appear to be 'unlawful'; and
 - the independent review into the Silver Hill scheme was still in progress and was not completed or reported to the Council before 30 September 2015. We could not therefore consider its findings when completing the vfm conclusion.
-

Significant vfm risk 3 – Contract management

The robustness of the Council's contract management arrangements has been challenged by Internal Audit who issued 'limited assurance' opinions on their reviews of 'Environmental Services contract' and 'Contract management' in 2013/14; by members of the public in the Overview and Scrutiny Committee meetings and by the Silver Hill judicial review judgement. These challenges raised a risk for our value for money conclusion about the arrangements for managing contracts.

Our work to support the value for money conclusion has shown that:

- Internal Audit have provided an updated 'adequate' opinion in respect of the 'Joint Environmental Services contract arrangements' in August 2015. Managers have also confirmed that all of the actions previously raised by Internal Audit in relation to their review of 'contracts management arrangements' have been implemented;
 - Internal Audit were still to complete their review in respect of the River Park Leisure Centre contract management arrangements at 30 September 2015. The independent review in respect of the Silver Hill development was still in progress and was not completed or reported to the Council before 30 September 2015. We could not therefore consider the findings from these reviews and whether there were any implications for the vfm conclusion.
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2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

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

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit Committee on 24/09/15. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements

2.8 Certification of grant claims and returns

We will issue the Annual Certification report for 2014/15 in January 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control 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 must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements.

4. Looking ahead

Looking ahead the Council will need to address the following areas of change:

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.</p>	<p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities. The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirement may still impact if it is responsible for assets such as:</p> <ul style="list-style-type: none"> • HRA infrastructure • Footways • Unadopted roads on industrial or HRA estates • Cycleways • Street Furniture <p>The Council's officers have begun to assess the impact of this change on its financial statements and expect that there will not be a material impact on the 2015/16 financial statements.</p>
<p>The DCLG is bringing forward the date of preparation of the financial statements from 2017/18.</p>	<p>This will result in earlier production of the statements and will be a significant challenge that the Council will need to prepare for in advance, reviewing the key tasks and assessing the extent that processes may need changing to reduce the production time.</p>

5. Fees

We have proposed an increase to our fee for 2014/15 of £4,536. This proposed increase is the result of additional work on the MTFs; meetings with officers and the independent reviewer appointed to consider the Silver Hill scheme; and meetings with officers and internal audit to discuss the Council's response to matters raised by an elector concerning the River Park Leisure Centre.

The proposed increased audit fee is subject to approval by Public Sector Audit Appointments Ltd (PSAA).

	Final fee 2014/15	Planned fee 2014/15	Scale fee 2014/15	Final fee 2013/14
Total Audit Fee – Code work	£79,651	£75,115	£75,115	£80,447
Total Audit Fee – Certification of claims and returns	£11,311*	£11,311	£11,311	£15,284

*Our fee for certification of claims and returns is yet to be finalised for 2014/15 and will be reported to those charged with governance in early 2016 within the Annual Certification Report for 2014/15.

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