

REPORT TITLE: ANNUAL AUDIT LETTER 2015/16

AUDIT COMMITTEE

24 NOVEMBER 2016

PORTFOLIO HOLDER: Cllr STEPHEN GODFREY

REPORT OF THE HEAD OF FINANCE

Contact Officer: Liz Keys Tel No: 01962 848226 Email: LKeys@winchester.gov.uk

WARD(S): ALL

PURPOSE

The purpose of the Annual Audit Letter (AAL) is to communicate the key issues arising from the External Auditors' work to all Members and external stakeholders, including members of the public.

The Council's external auditors, Ernst and Young LLP have now presented the AAL for 2015/16, which is appended. This marks the conclusion of the external audit work in relation to the 2015/16 financial year. The letter has been discussed with officers and, following consideration by Audit Committee, will be published on the Council's website.

RECOMMENDATIONS:

1. That the Audit Committee:
  - i. takes the opportunity to discuss the contents of the Annual Audit Letter 2015/16 with the External Auditors; and
  - ii. confirms its acceptance of the Annual Audit Letter 2015/16.

## IMPLICATIONS:

### 1 COMMUNITY STRATEGY OUTCOME

- 1.1 External Audit findings contribute to the corporate governance arrangements of Winchester City Council, which in turn supports the achievement of the objectives of the Community Strategy.

### 2 FINANCIAL IMPLICATIONS

- 2.1 The final fee for the 2015/16 audit work was £56,336 (this is the same as the planned fee reported to Committee in June 2015 (AUD122)).
- 2.2 The auditors will issue their Annual Certification Report in March 2017. This summarises their work on the certification of grants and returns relating to 2015/16. The fee for this certification work is planned to be £10,535 but has not yet been finalised.

### 3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 None

### 4 WORKFORCE IMPLICATIONS

- 4.1 None

### 5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None.

### 6 CONSULTATION AND EQUALITY IMPACT ASSESSMENT

- 6.1 None

### 7 RISK MANAGEMENT

- 7.1 None

### 8 SUPPORTING INFORMATION:

- 8.1 None

### 9 OTHER OPTIONS CONSIDERED AND REJECTED

- 9.1 None.

## BACKGROUND DOCUMENTS:-

### Previous Committee Reports:-

AUD166 - Audit Results Report for the Year Ended 31 March 2016, 29 September 2016

Other Background Documents:-

None

APPENDICES:

Appendix 1 - Annual Audit Letter 2015/16

# Winchester City Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

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 from 1 April 2015’ issued by 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 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.

A close-up photograph of a hand holding a blue pen and writing on a document. The hand is positioned on the right side of the frame. In the background, a laptop is open, and a calculator is visible on the desk. To the left, a white mug is partially visible. The scene is brightly lit, likely from a window, creating a professional and focused atmosphere. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Executive Summary'.

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Winchester City Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no significant matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 21 September 2016 and presented to the 29 September 2016 meeting of the Audit Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 30 September 2016.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Helen Thompson  
Executive Director  
For and on behalf of Ernst & Young LLP



Purpose



## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 29 September meeting of the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 24 February 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ on the 2015/16 financial statements; and
  - ▶ on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ if the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ any significant matters that are in the public interest;
  - ▶ any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ if we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

## Responsibilities of the Council

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 putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

# Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it 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 National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office. We issued an unqualified audit report on 30 September 2016.

Our detailed findings were included in our Audit Results Report presented to the 29 September meeting of the Audit Committee. In the report, which was issued on 21 September 2016, we noted that there was a small amount of work to be completed. We completed that work and this enabled us to issue an unqualified audit report on the Council financial statements. There were no matters arising from the completion of our work that needed to be reported to the Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We completed our testing in respect of the procedures set out in our Audit Plan and found no evidence of management override or bias as a result of our work.</p>

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There were no uncorrected differences that we needed to report, or significant corrected differences made, as a result of our work in this area.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

Value for Money

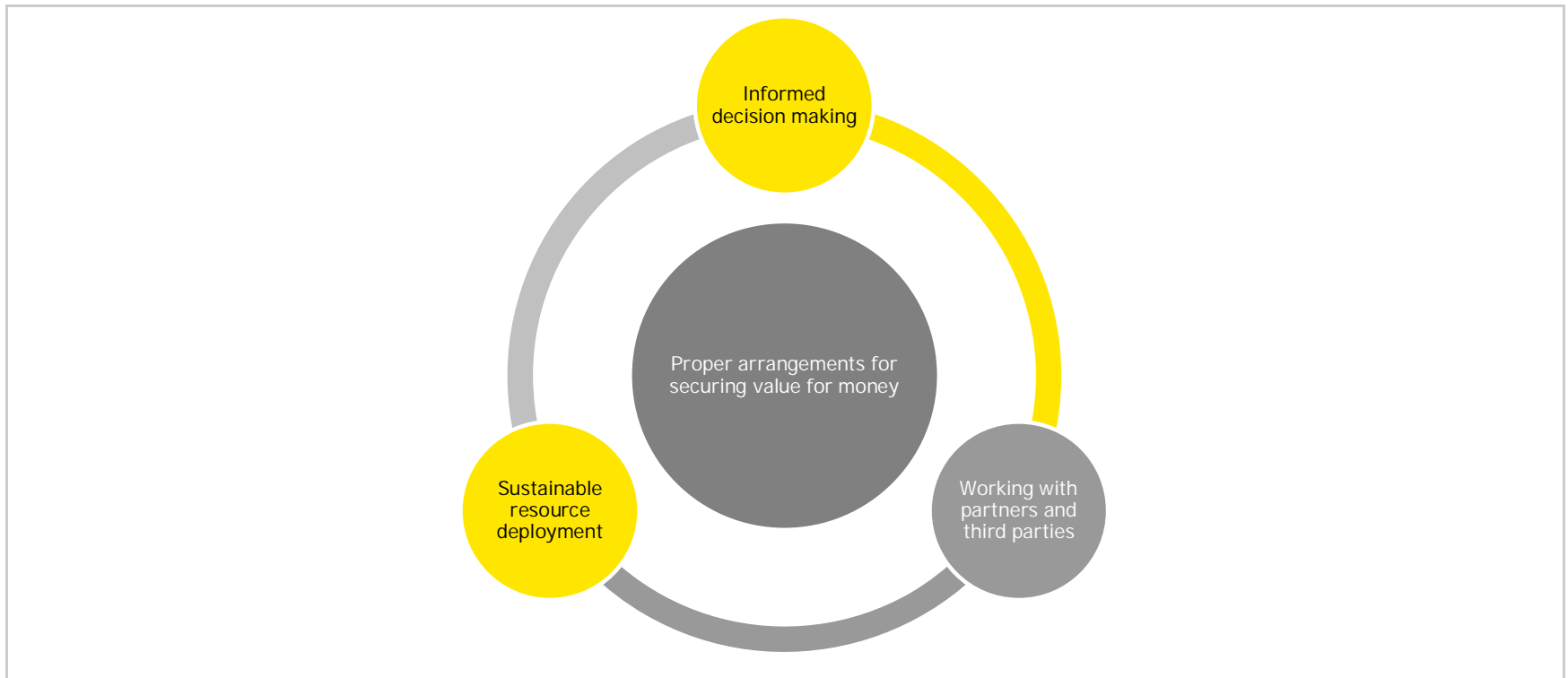


## Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.



We issued an unqualified value for money conclusion on 30 September 2016.

We identified two significant risks in this area, the first relating to sustainable resource deployment and the second on issues arising from Silver Hill and other major capital projects and external reviews of the Council. Our key findings and conclusions in each area are set out below.

#### *Sustainable resource deployment*

Having considered both the 2015/16 outturn financial position and performance of the Council and its future financial plans based on the February 2016 iteration of its Medium Term Financial Strategy, we did not identify any significant weaknesses in the Council's arrangements for ensuring sustainable resource deployment.

#### *Silver Hill and other major capital projects*

We considered the findings, recommendations and Council responses to the following external reviews of Council governance and associated arrangements, together with relevant outputs from the Council's own internal assurance processes:

- Silver Hill Independent Review.
- Local Government Association (LGA) Peer Review.
- Local Partnerships Review of Programme Management (4Ps review).

Our approach was to map the findings and recommendations from the reviews and other issues identified by the Council, which overlapped to an extent, to the VFM conclusion criteria to:

- Assess the relevance of issues raised to our VFM conclusion responsibilities.
- Assess progress made and the nature and extent of remaining issues as at 31 March 2016.
- Determine whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall we concluded that there are no significant gaps in the Council's arrangements that would require us to qualify the 2015/16 VFM conclusion. We did, however, highlight the following areas for improvement:

- There are consistent issues raised across the Silver Hill independent review, LGA peer review and 4 Ps review on the need to update and develop governance arrangements. Although good progress has been made in a number of areas the Council needs to revisit and prioritise remaining actions.
- The Council cannot yet fully show how its 2016/17 budget setting process and MTFS update has been aligned to corporate priorities.
- The Council's approach to reducing net expenditure is to prioritise efficiency savings and growth of income over service reduction, but it not always clear how the additional income will be generated and how this links to the wider corporate vision and priorities of the Council.
- There is a need to make internal financial reporting more clearly aligned to Council priorities, less complex and focused to a greater extent on key measures of financial performance and other things that matter to the Council.



Other Reporting  
Issues

## Other Reporting Issues

### 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 significant issues to report.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

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

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

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

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2015/16 financial statements from members of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee meeting on 29 September 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## Control Themes and Observations

As part of our work, 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 significant deficiencies in internal control identified 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 your financial statements of which you are not aware.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your future

Area	Issue	Impact
Financial challenges and budget pressures	<p>In common with many local authorities, the Council faces significant financial challenges over the medium term</p> <p>Subsequent to the issue of our Audit Results Report, an updated Medium Term Financial Strategy was presented to Cabinet In October 2016 covering the period 2016/17 to 2021/22. This shows a relatively small but increasing budget gap from 2017/18. The Council's Efficiency Plan, which was updated in September 2016, sets out its approach to ensuring continued financial sustainability. Successful delivery of the Plan is essential so that net savings are identified to allow the Council to balance future budgets.</p>	<p>The effectiveness of the Council's revised medium term financial planning, and particularly the success of its work to improve efficiency through transformational change, increase income, use its asset management arrangements to ensure financial sustainability and grow the local economy, will be key to its success. This will continue to be a point of focus for our future work.</p>
EU referendum	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&amp;P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>



Appendix A

## Audit Fees



## Appendix A Audit Fees

The table below sets out the scale fee and our final proposed audit fees

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	56,336	56,336	56,336
Total Audit Fee – Certification of claims and returns	10,535*	10,535	10,535

\* Our work to certify claims and returns remains ongoing as at 17 October 2016. The final fee is therefore subject to change dependent on any issues arising in completion of our work in this area.

We confirm we have not undertaken any non-audit work outside of PSAA's requirements.

EY | Assurance | Tax | Transactions | Advisory

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ED None

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