

REPORT TITLE: ANNUAL AUDIT LETTER 2016/17

7 DECEMBER 2017

REPORT OF PORTFOLIO HOLDER: CLLR ASHTON – PORTFOLIO HOLDER FOR FINANCE

Contact Officer: Liz Keys Tel No: 01962 848 226 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 2016/17, which is appended.

This marks the conclusion of the external audit work in relation to the 2016/17 financial year.

The letter has been discussed with officers and is published on the Council's website.

RECOMMENDATIONS:

1. That the Committee:
 - i. Takes the opportunity to discuss the contents of the Annual Audit Letter 2016/17 and raise any issues with the External Auditors; and
 - ii. Confirms its acceptance of the Annual Audit Letter 2016/17

IMPLICATIONS:1 COUNCIL 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 Council Strategy.

2 FINANCIAL IMPLICATIONS

- 2.1 The final fee for the 2016/17 audit work was £61,436 which includes £5,100 additional fee for work undertaken to support the 2016/17 Value for Money conclusion.
- 2.2 The auditors will issue their Annual Certification Report in March 2018. This summarises their work on the certification of grants and returns relating to 2016/17. The fee for this certification work is planned to be £6,630 but has not yet been finalised.

3 LEGAL AND PROCUREMENT

- 3.1 None.

4 WORKFORCE IMPLICATIONS

- 4.1 None.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None

6 CONSULTATION AND COMMUNICATION

- 6.1 None

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 None

8 EQUALITY IMPACT ASSESSEMENT

- 8.1 None

9 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>Property</i>		

<i>Community Support</i>		
<i>Timescales</i>		
<i>Project capacity</i>		
<i>Financial / VfM</i>		
<i>Legal</i>		
<i>Innovation</i>		
<i>Reputation</i>		
<i>Other</i>		

10 SUPPORTING INFORMATION:

10.1 None

11 OTHER OPTIONS CONSIDERED AND REJECTED

11.1 None

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

Other Background Documents:-

APPENDICES:

Appendix 1 – Annual Audit Letter 2016/17

Winchester City Council

Annual Audit Letter for the year ended 31 March 2017

September 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (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 (updated 23 February 2017)” 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 hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

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 2017.

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 2017 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. We did, however, conclude that contract management arrangements were an area of particular weakness and that it is essential that the weaknesses are addressed as a matter of priority. This is particularly important given the scale of the Council's ambitions, particularly in relation to its capital programme, and the high level of reliance it is likely to need to place on contractors and other third parties in the future.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Annual Governance Statement	The Annual 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.

Area of Work	Conclusion
<ul style="list-style-type: none"> ▶ 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).	The Council is below the specified audit threshold of £350 million. Therefore, we were not required to perform any audit procedures on the consolidation pack.

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 presented to the 29 September 2017 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 2017.

In December 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the 2016/17 housing benefits claim.

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

Helen Thompson

Associate Partner

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 2016/17 Audit Results Report to the 29 September 2017 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 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 16 February 2017 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 2016/17 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 Council is below the specified audit threshold of £350 million. Therefore, we were not required to perform any audit procedures on the return.

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.

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 and issued an unqualified audit report on 30 September 2017.

Our detailed findings were reported to the 29 September 2017 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>To gain assurance in respect of the general risk of management override:</p> <ul style="list-style-type: none">• We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.• We reviewed accounting estimates for evidence of management bias.• We evaluated the business rationale for any significant unusual transactions.• We evaluated the rationale for any changes in accounting policy.• We considered the appropriateness of accounting adjustments made via the Movement in Reserves Statement <p>We did not identify:</p> <ul style="list-style-type: none">• Any material weaknesses in controls or evidence of material management override.• Any instances of inappropriate judgements being applied.• Any other transactions during our audit which appeared unusual or outside the Council's normal course of business

Other Areas of Audit Focus	Conclusion
<p>Financial Statements Presentation</p> <p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) which change the way the financial statements are presented.</p> <p>The new reporting requirements impact on both the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, and include the introduction of the new 'Expenditure and Funding Analysis' note.</p>	<p>We concluded that the Council dealt well in adopting the new presentational changes required by the Code in its 2016/17 financial statements.</p>
<p>Accounting for Property, Plant and Equipment</p> <p>Property, Plant and Equipment represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet.</p> <p>The Council relies on both internal and external valuers who apply a number of complex assumptions. Annually, assets are assessed to identify whether there is any indication of impairment.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We identified no significant deficiencies in the Council's overall approach in this area</p>

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.83 million (2015/16: £1.86 million), which is 2% of gross revenue expenditure reported in the financial statements. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £91,200 (2015/16: £93,050)

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no uncorrected misstatements.

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 ridges on the edges. 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 on 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 identified two significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 30 September 2017.

Significant Risk	Conclusion
<p>Failure to deliver medium term financial balance</p> <p>In its Medium Term Financial Strategy (MTFS) considered at the planning stage of the audit the Council forecast a small net budget gap from 2018/19, growing to an annual budget gap of approximately £2.5 million by 2021/22.</p> <p>The Council still does not face significant financial challenges in the short term relative to others due its level of reserves. However, it cannot continue to sustain its current financial position without recurrent reductions in spending or increases in income. Its strategy continues to be grow revenues. A significant part of this was through its relatively large and ambitious capital programme. In recent years the Council has had difficulties in managing and delivering its capital programme on time and external reviews have noted a lack of available capacity to support asset management planning.</p> <p>Our approach focused on the robustness of the Council's plans and arrangements to deliver sustainable financial balance over the medium term with a particular focus on its ability to deliver its ambitious capital plans and the capacity of its asset management planning arrangements.</p>	<p>The Council comfortably underspent against both its General Fund and HRA revenue budgets and has an adequate level of reserves to maintain financial resilience over the medium term. It is moving to a system of outcome based budgeting and clearer, simplified financial reporting. This is with the intention of more closely aligning its financial and organisational priorities, including the need to secure efficiencies, and being better able to assess achievement of its objectives.</p> <p>The Council has a sizeable and ambitious capital programme for an authority of its size that it has struggled to deliver in recent years for a number of reasons. Given the link between the capital programme and the MTFS requirement to grow revenues through capital activity, the Council can no longer afford a high level of slippage. This risk is recognised in most recent update to the MTFS in 2017/18 reduces the level of reliance on the capital programme to finance revenue over the planning horizon. This means that further revenue growth or savings will be required to close the recurrent budget gap from 2018/19.</p>

Significant Risk	Conclusion
<p>Progress on developing organisational arrangements</p> <p>Our VFM conclusion work in 2015/16 considered the findings of recent external reviews of the Council undertaken in recent years in so far as they were relevant to our VFM conclusion responsibilities:</p> <ul style="list-style-type: none"> • Silver Hill Independent Review. • 2013 Local Government Association (LGA) Peer Review. • Local Partnerships Review of Programme Management (4Ps review). <p>Although progress had been made in relation to a number of the issues highlighted by the reviews we concluded there remained a need at the end of 2015/16 to continue to develop organisational arrangements in some areas.</p> <p>As part of its membership of the LGA the Council has opted to take part in a corporate peer review co-ordinated by the LGA in early 2017.</p> <p>Our approach was to focus on the progress made to address weaknesses in governance and other arrangements identified in previous years drawing on findings and evidence from the current LGA peer review of the Council.</p>	<p>The Council has made good progress in developing its governance arrangements in a number of areas during the year and into 2017/18. An updated Council Strategy has been produced to more clearly articulate Council priorities. Monitoring and control processes are being more closely aligned to this vision so the Council is better able to assess progress and concentrate on the things it considers important. The introduction of enhanced quarterly financial and performance reporting from quarter 1 of 2017/18, and the plan to move to a system of outcome based budgeting, are good examples of this. Efforts have been made to improve organisational capacity in a number of key areas, for example arrangements to deliver the Council’s ambitious capital programme.</p> <p>Some progress has been made in developing the Council’s constitutional arrangements but the recent LGA peer review continues to note that decision making processes appear cumbersome and complex, and scrutiny could be making a more positive contribution. This is recognised by the Council and further changes are planned.</p> <p>Contract management arrangements remain an area of particular weakness. The weaknesses are recognised by the Council, although they are considered to be limited to the contracts reviewed and wider procurement arrangements appear sound. It is essential that the weaknesses are addressed as a matter of priority. This is particularly important given the scale of the Council’s ambitions, particularly in relation to the capital programme, and the high level of reliance it is likely to need to place on contractors and other third parties in the future.</p>



Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we were not required by the NAO to perform any audit procedures on the consolidation pack.

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 2016/17 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 on 29 September 2017. 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.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

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
<p>Earlier statutory deadline for production and audit of the financial statements from 2017/18</p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year.</p> <p>From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> • Issued a thought piece on early closedown; • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales; and • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017. <p>It is essential that we work together collaboratively in 2017/18 to ensure the necessary changes are made to working practices both at the Council and among the audit team, to ensure the new statutory deadlines are met in 2017/18.</p>
<p>IFRS 16 Leases</p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

Our fees for 2016/17 remains as reported in our 13 September 2017 Annual Results Report.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	61,436*	56,336	56,336	56,336
Total Audit Fee – Certification of claims and returns	6,630**	8,483	8,483	10,535

* Includes £5,100 additional fee for work undertaken to support the 2016/17 Value for Money conclusion. The additional fee is subject to final confirmation with Public Sector Audit Appointments Limited (PSAA).

** Final proposed fee is 20% lower than the indicative fee reflecting an increased level of reliance placed on testing undertaken by Council staff to support the Housing Benefit Grant Claim audit. This is subject to satisfactory delivery of the testing undertaken by the Council and the initial work identifying no requirement for additional testing.

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

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ED None

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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