

AUDIT COMMITTEE

29 September 2016

AUDIT RESULTS REPORT FOR THE YEAR ENDED 31 MARCH 2016

REPORT OF HEAD OF FINANCE

Contact Officer: Simon Little Tel No: 01962 848224 Email: slittle@winchester.gov.uk

RECENT REFERENCES:

AUD157: Corporate Governance Report and Annual Governance Statement 2015/16, 28 June 2016

AUD150: External Audit Plan 2015/16, 10 March 2016

AUD159: Annual Financial Report 2015/16, 28 June 2016

EXECUTIVE SUMMARY:

Ernst & Young (EY), the Council's external auditors, have now presented the Audit Results Report for the Year Ended 31 March 2016 (appended) which summarises the findings from the audit of the Financial Statements for 2015/16 and the results of the External Auditor's work on the Council's arrangements to secure value for money in use of resources. At the time of writing this report the audit work is substantially complete.

Subject to the clearance of outstanding matters, and the provision of a Letter of Representation, the External Auditor plans to issue an unqualified audit opinion on the financial statements and expects to conclude that the Council has made appropriate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Representatives of Ernst & Young will attend the meeting to present their proposals and provide any points of clarification.

RECOMMENDATIONS:

That the Audit Committee:

1. Considers the matters presented in the Auditor's Report (Appendix A) and takes the opportunity to raise any points of clarification or concerns with EY, who will be present at the meeting, and
2. Approves the Letter of Representation (Appendix B).

OTHER CONSIDERATIONS:

1. COMMUNITY STRATEGY and PORTFOLIO PLANS (RELEVANCE TO):

- 1.1. The external audit of the Annual Financial Report is fundamental to the requirement for accountability for public finances. Achieving corporate priorities must go in hand with accounting for how the public's money has been spent.

2. RESOURCE IMPLICATIONS:

- 2.1. The external audit fees are shown at page 18 of Appendix A and are in line with the proposed fees at this point in time; £50,336 Audit and £10,535 for the certification of claims and returns, although this is subject to the outstanding work being completed within budget. Attention is also drawn to the meetings held with Management, Internal Audit and the Independent Reviewer to assess progress with their reviews. This may impact on the final fees. An update will be provided to the Audit Committee at the meeting.

3. BACKGROUND DOCUMENTS:

None

APPENDICES

Appendix A: Audit Results Report for the year ended 31 March 2016

Appendix B: Letter of Management Representation (draft for approval)

Winchester City Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



Building a better
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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.psa.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 Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. 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

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

Status of the audit	<p>We have substantially completed our audit of the financial statements of Winchester City Council for the year ended 31 March 2016. As at 21 September 2016 there is a small amount of work outstanding as follows:</p> <ul style="list-style-type: none"> • Completion of our testing of account entries and disclosures relating to leases. • A full response to a request for representations from the Monitoring Officer to support the disclosure of contingent liabilities and assets in the financial statements. <p>We have performed the procedures outlined in our audit plan and anticipate issuing an unqualified opinion on the Council's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>Subject to completion of the outstanding work there are no unadjusted or adjusted audit differences.</p>
Scope and materiality	<p>In our audit plan presented at the 10 March 2016 Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of approximately £1.8 million. We have reassessed this based on the actual results for the financial year and have increased this amount to approximately £1.86 million based on the increased level of gross revenue expenditure reported in the financial statements compared to the prior year.</p> <p>The threshold for reporting audit differences which impact the financial statements has also increased from £89,600 to £93,050. The basis of our assessment is 2% of gross operating expenditure, which has remained consistent with prior years.</p> <p>We carried out our work in accordance with our audit plan.</p>
Significant audit risks	<p>We identified the risk of management override during the planning phase of our audit, which we reported to you in our audit plan.</p> <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over this.</p>
Other reporting issues	<p>There are no other reporting matters which we wish to bring to your attention.</p>

Control
observations

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

Kate Handy

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly 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 Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

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 are specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risk during the planning phase of our audit, and reported this to you in our audit plan. Here, we set out how we have gained audit assurance over this issue.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>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.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> · 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. 	<p>We identified no evidence of management override or bias as a result of our work.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

There are no specific matters which we wish to bring to your attention.

Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

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 have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

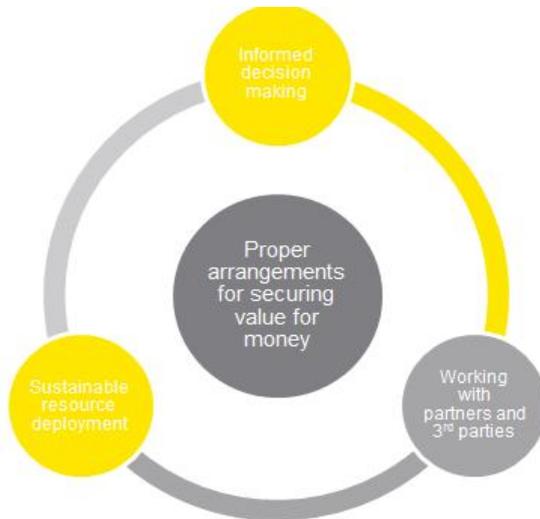
We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix F.

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 are specified by the National Audit Office.

We have completed our work in this area and there are no matters which we wish to draw to your attention.

4. 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.

Overall conclusion

We identified two significant risks relevant to these arrangements, one connected to sustainable resource deployment, the other on Silver Hill and other major capital projects.

We have not identified any significant weaknesses in the Council's arrangements that would cause us to qualify the value for money (VFM) conclusion. We did however identify a number of issues which we bring to your attention in the reporting below.

We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Significant risks

We identified two significant risks in our audit plan.

Significant risk 1: Sustainable resource deployment

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.

At the time of our audit planning the Council forecast that it would broadly deliver against its 2015/16 general fund and housing revenue account budgets. Although the budget position for 2016/17 was comfortably balanced, reductions in funding were likely to start to have a greater impact on the Council's ability to balance the budget from 2017/18.

Our planned response

We planned to review the most recent update of the Council's medium term financial strategy (MTFS) in light of the recent local government financial settlement and other developments. As part of this we planned to specifically consider:

- The reasonableness of assumptions underpinning the projections set out the MTFS; and
- The level and timing of any budget gaps forecast by the MTFS, and the Council's progress in developing its response.

Our findings and conclusions

We have 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 MTFS.

2015/16 outturn financial performance and position

The General Fund cost of services for 2015/16 was £22.5 million against a revised budget of £19.9 million, producing a deficit of £2.6 million. However, adjustments for unbudgeted items not impacting on the council tax financing requirement resulted in a surplus of £3.4m. This allowed for a greater transfer to reserves than originally planned. The final outturn on the 2015/16 Housing Revenue Account showed a surplus on the account of £2.9 million against a budgeted surplus of £0.9 million. This was mainly as a result of revised programming for capital works and managed savings achieved throughout the year. Total capital expenditure for the year was £18.5 million which was £2.9 million less than the working budget of £21.4 million, and £28.7 million less than the original budget. The significant variation against the original capital budget was caused by slippage and the decision not to progress the Silver Hill development. Overall, the Council has performed better than expected against the HRA and General Fund revenue budgets for the year than was forecast at the planning stage of our audit.

Medium term financial plans

We have considered the medium term financial plans of the Council as set out in its current MTFS. There is a small and growing budget gap before the use of reserves and planned reliance on New Homes Bonus (NHB), which may be considered to be uncertain, as a recurrent revenue funding source. The level of Council reserves is, however, more than sufficient to accommodate this over a three year planning horizon. Even if the Council did not address its funding gap, or receive the NHB it expects to receive over the next three years, it would maintain a financial position comfortably above its recommended level of minimum general reserves based on its own projections. We are also satisfied that assumptions underpinning projections in the MTFS are reasonable.

We have therefore not identified any significant weaknesses in the Council's arrangements for ensuring sustainable resource deployment.

Significant risk 2: Silver Hill and other major capital projects

Since 2004 the City Council had been working with a private developer to regenerate a large and run-down area of Winchester Town Centre known as Silver Hill. Significant variations to the agreed scheme were proposed by the developer in 2012 and approved by Cabinet and Full Council in July 2014. In the autumn of 2014 a City Councillor sought leave for a Judicial Review of the Council's approval of revisions to the scheme. In February 2015 the Court upheld that challenge and the Council's decision to approve the variations to the scheme was quashed.

As a result of this the Council in 2015 commissioned an independent review of its own actions in respect of the Silver Hill scheme. The review was published prior to our audit planning and was critical of the Council's arrangements in a number of areas relevant to our value for money conclusion responsibilities including, but not limited, to:

- Its assurance systems to ensure that safe and legally correct decisions are made.
- Aspects of the constitution and associated arrangements that weaken the effectiveness of overall governance, particularly in respect of issues that have a longer term impact.

- Weaknesses in strategies and arrangements on press and public relations, project management, and risk management, including the maintenance of a transparent and effective risk register.
- Its approach to major procurements, and the extent to which it encourages competition.
- The level of professional and commercial skills amongst officers to deliver significant capital developments like Silver Hill.
- Weaknesses in the use of external experts to support decision making.

Some of these issues, for example weaknesses in asset, programme and contract management arrangements, are already recognised as part of the Council's internal assurance processes and disclosures, such as the Council's risk register and annual governance statement.

Our planned response

We planned to review the detailed findings of the independent review of Silver Hill, and any other relevant reviews (in so far as they relate to our value for money criteria) and consider the Council's response. We planned to consider the consistency between these findings and the issues highlighted by the Council's own internal assurance processes. We also planned to consider the extent to which these issues impact on the form of our VFM conclusion.

Our findings and conclusions

Subsequent to our initial planning the Council served letters in February 2016 that gave the developer three months' notice of termination of the Silver Hill development agreement. The Silver Hill development agreement was terminated in May 2016. Although a judicial review of the Council's decision to serve the termination notice was initially proposed by the developer this was not ultimately pursued.

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.

Proper arrangements for the purposes of the VFM conclusion are defined by statutory guidance issued by the National Audit Office. To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements. However, these are not separate and auditors are not required to reach a distinct judgement against each one:

Sub-Criteria	Proper Arrangements
Informed decision making	Acting in the public interest, through demonstrating and applying the principles and values of sound governance
	Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management
	Reliable and timely financial reporting that supports the delivery of strategic priorities
	Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions
	Managing and utilising assets effectively to support the delivery of strategic priorities
	Planning, organising and developing the workforce effectively to deliver strategic priorities
Working with partners and other third parties	Working with third parties effectively to deliver strategic priorities
	Commissioning services effectively to support the delivery of strategic priorities
	Procuring supplies and services effectively to support the delivery of strategic priorities

Having completed this mapping exercise we are satisfied that there are no significant gaps in the Council's arrangements that would require us to qualify the 2015/16 VFM conclusion. Our review highlighted some areas where good progress has been made in respect of issues raised in the reviews, for example the development of the Council's enhanced risk management arrangements and reporting.

There remained, however, scope for further progress at the end of 2015/16 in a number of areas. We set these out below against the VFM conclusion proper arrangements to which the issues relate. It is important that there is a continued focus to address these points.

Informed decision making - acting in the public interest, through demonstrating and applying the principles and values of sound governance

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. Several elements of a governance review had been undertaken by the end of 2015/16 but a decision was taken to defer a broader review of governance arrangements until changes in ward boundaries were implemented in May 2016.

Implementation of recommendations from all of the external reviews is progressing, but a number of areas remained work in progress at the end of 2015/16, and up to August 2016 for example around the updating of Project Guidance and consideration of whether to appoint an in-house procurement specialist. We do not consider the actions that remain work in progress to be significant gaps in organisational arrangements that would cause us to consider qualification of the VFM conclusion, but there remains work to be done. The Council needs to revisit and prioritise those remaining actions.

Informed decision making - reliable and timely financial reporting that supports the delivery of strategic priorities; and Sustainable resource deployment - Managing and utilising assets effectively to support the delivery of strategic priorities

Issues were raised in the LGA peer review around more closely linking the MTFs and the Council's medium term financial planning to its corporate priorities.

We have also concluded that 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 stated approach to ensuring that it is financially sustainable has been to prioritise efficiency savings and growth of income over service reduction. Its financial strategy has been to grow General Fund property income by increasing its asset base over time. This has resulted in a sizeable and ambitious capital programme for a Council of its size. It is, however, not clear how the additional income will be generated and how this links to the wider corporate vision and priorities of the Council. The scale of the programme also impacts on officer capacity and some key tasks which are essential to demonstrating these links, for example update of the Council's asset management plan, had slipped at the end of 2015/16. We also note the relatively high level of slippage in the Council's capital programme during 2015/16. More generally, 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.

Although the Council's approach has been to prioritise income growth over service reductions it does recognise that more needs to be done to identify service efficiencies. It will be undertaking a programme of business led reviews of delivery as part of its transformation. The reviews are aimed at identifying how processes can be made more efficient to improve both the quality of the service and deliver financial savings. The Council has not yet had a financial imperative to do this because of its healthy reserves and relatively high level of fees and charges, but progress in this area does also now need to be made.

Appendix A – Uncorrected audit differences

We are expecting no uncorrected misstatements greater than our nominal amount of £93,050 subject to completion of our outstanding work.

Appendix B – Corrected audit differences

A number of corrections to the financial statements have been made a result of our audit. There are no corrections which we specifically wish to draw to your attention subject to the completion of our outstanding work.

Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our audit plan dated 24 February 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 29 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our audit plan of 24 February 2016.

Appendix D – Auditor fees

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

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

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm that we have undertaken no non audit work at the Council.

Appendix E – Draft audit report

Independent auditor's report to the members of Winchester City Council

Opinion on the Authority's financial statements

We have audited the financial statements of Winchester City Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement, and the related notes 1 to 33.
- The Housing Revenue Account Income and Expenditure Statement and the Statement of Movement on the Housing Revenue Account and related notes H1 to H6.
- The Collection Fund, and the related notes C1 to C3.

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 2015/16.

This report is made solely to the members of Winchester City 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities set out on page 9, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Financial Report for the year ended 31 March 2016 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Winchester City Council as at 31 March 2016 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 2015/16.

Opinion on other matters

In our opinion, the information given in the Annual Financial Report for the Year ended 31 March 2016 for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 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; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Conclusion on Winchester City Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority 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

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. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

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, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Winchester City 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Winchester City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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, Winchester City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Winchester City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of Winchester City Council 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.

Kate Handy

for and on behalf of Ernst & Young LLP, Appointed Auditor

Southampton

xx September 2016

Appendix F – Management representation letter

21 September 2016

Kate Handy

Ernst & Young LLP

Wessex House

19 Threefield Lane

Southampton

SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Winchester City Council (“the Council”) for the year ended 31 March 2016. 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 financial statements give a true and fair view of the financial position of Winchester City Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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 the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the 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 Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has 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 2015/16, that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because
 - a. ***At this stage of the audit we do not expect there to be any unadjusted audit differences- this para will be clarified in final version of letter***

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. 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 are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and 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.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

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

E. 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 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 litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

F. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. For accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

G. Subsequent Events

1. Other than as described in Note 5 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

H. 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, and the pension fund liability, and have

adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the 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.

I. 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,

Simon Little

(Head of Finance and Section 151 Officer)

I confirm that this letter has been discussed and agreed at the Audit Committee on 29 September 2016

Councillor Neil Cutler

(Chairman of the Audit Committee)

Appendix H – Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan.
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ 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 	Audit Results Report.
<p>Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Winchester City Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ 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 ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties Significant matters arising during the audit in connection with</p>	We have not matters we wish to report.

Required communication	Reference
<p>the entity's related parties including, when applicable:</p> <ul style="list-style-type: none">▶ 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	

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ 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 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	None identified
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan and Audit Results Report</p> <p>Our final fee will be confirmed in the Annual Audit Letter if considered necessary</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Annual Certification Report

EY | Assurance | Tax | Transactions | Advisory

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Our Ref:
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Direct Line: 01962 848226
Email: LKeys@winchester.gov.uk

21 September 2016

Dear Kate,

2015/16 Management Representation Letter

This letter of representations is provided in connection with your audit of the financial statements of Winchester City Council ("the Council") for the year ended 31 March 2016. 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 financial statements give a true and fair view of the financial position of Winchester City Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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 the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
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3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.



4. As members of management of the Council, we believe that the Council has 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 2015/16, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because at this stage of the audit we do not expect there to be any unadjusted audit differences.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
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 - 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.
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4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

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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 litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.
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1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
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G. Subsequent Events

1. Other than as described in Note 5 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

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1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, and the pension fund liability, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the

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.

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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 sincerely,

Simon Little
Head of Finance and Section 151 Officer

I confirm that this letter has been discussed and agreed at the Audit Committee on
29 September 2016

Councillor Neil Cutler
Chairman of the Audit Committee