



**Winchester City Council**

**Auditor's Annual Report  
Year ended 31 March 2021**

18 February 2022



**EY**

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit & Governance Committee and management of Winchester City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee and management of Winchester City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee and management of Winchester City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

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 Hywel Ball, 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.

Section 1

# Executive Summary



## Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on the Authority's:</b>	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 17 December 2021
Going concern	We concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	We concluded that other information in the Annual Financial Report 2020/21 and published with the financial statements was consistent with the audited accounts.
<b>Reports by exception:</b>	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements.  We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We concluded that we are satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We have had no reason to use our auditor powers.

# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 1 November 2021 and presented this to the Council at its Audit & Governance Committee meeting on 11 November 2021. We subsequently provided an updated Audit Results Report following completion of our procedures on 8 December 2021.
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 2020 Code of Audit Practice.	<p>We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.</p> <p>We expect that the Council will remain below the de-minimis for full procedures, which in the prior year was set at £500m. Therefore, we anticipate having no issues to report.</p>

## Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. As a result, we intend to agree an associated additional fee with the Corporate Head of Finance. We include details of the audit fees in Appendix 1.

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

Kevin Suter

Associate Partner  
For and on behalf of Ernst & Young LLP

Section 2

## Purpose and responsibilities



# Purpose and responsibilities

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This report summarises our audit work on the 2020/21 financial statements.

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## **Purpose**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Planning Report that we issued on 2 July 2021 and presented to the Audit & Governance Committee. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

# Financial Statement Audit



# Financial Statement Audit – Winchester City Council

## Key issues

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

The Financial Report and 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.

On 17 December 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Council at their Audit & Governance meeting on 11 November 2021. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

## Significant risk

### Misstatements due to fraud or error - management override of controls

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

### Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

## Conclusion

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.

We have not identified any material weaknesses in controls or evidence of material management override.

We tested a sample of PPE additions and confirmed they met the capitalisation requirements under IAS16

We tested a sample of REFCUS items and confirmed they were appropriately classified

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions through our test of journals or our other audit procedures which appeared unusual or outside the Council's normal course of business.

## Financial Statement Audit – Winchester City Council (continued)

Significant risk	Conclusion
<p><b>Valuation of Property, including Investment Property</b></p> <p>Property, Plant and Equipment land and buildings (L&amp;B) measured at Fair Value or Existing Use Value (EUV) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end L&amp;B and IP balances held in the balance sheet.</p>	<p>We have identified 3 misstatements in relation to the Former Antiques Market, 158-159, 160, 163 164 &amp; 165 High Street, and in relation to Car Park Assets. The first two assets were assessed to be overstated as their condition is considered to be worse than the valuer has recorded. For Car Parks, season ticket income for 20/21 had been understated by the valuer. We have included the additional season ticket income in our recalculation of the car park valuation.</p> <p>When these differences are taken in aggregate, we consider valuations to still be materially correct.</p> <p>The cycle of valuations was appropriate and we did not identify any material misstatements for assets not revalued.</p> <p>We consider the useful economic lives of the assets to be reasonable and all accounting entries have been correctly processed in the financial statements.</p>
<p><b>Risk of fraud in revenue and expenditure recognition – Compensation Scheme for Lost Sales Fees and Charges</b></p> <p>As one of the responses to the Covid-19 pandemic and its impact on Local Authority finances, the Government introduced a reimbursement scheme for lost fees and charges income. After an initial 5% reduction for annual variability, local authorities are funded for 75% of their claimed losses. There is both incentive and opportunity for local authorities to inflate the returns to Central Government, and claim for funds that they are not entitled to under the scheme. There is also the potential for error.</p>	<p>We considered the Council's process for completing the grant return to Central Government was reasonable and appropriate.</p> <p>We have not identified any instances of inappropriate judgements being applied and follow the specified guidance, and is supported by relevant and appropriate evidence.</p> <p>We confirmed the grant was correctly accounted for in the financial statements.</p>

## Financial Statement Audit – Winchester City Council (continued)

Other area of audit focus	Conclusion
<p><b>Pension liability valuation</b></p> <p>The Code of Practice on Local Authority Accounting and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.</p> <p>The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.</p> <p>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>Our testing has identified no material misstatements.</p> <p>We have concluded that we could rely on the work of the Pension Fund actuary, and assess their assumptions as reasonable. The values and entries from the actuarial report were correctly reflected in the Council's financial statements.</p> <p>We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions.</p> <p>We have confirmed the values and entries from the actuarial report have been correctly reflected in the Council's financial statements.</p> <p>The results of the EY pensions specialist has confirmed the actuarial estimate to be accurate within a reasonable range.</p>
<p><b>Accounting for Covid-19 related government grants</b></p> <p>Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.</p> <p>The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.</p>	<p>Based on our work we are satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met. These grants have been adequately disclosed in the accounts.</p>

# Financial Statement Audit – Winchester City Council (continued)

## Audit differences

We identified a small number of misstatements in disclosures which management corrected.

We report to you any uncorrected misstatements greater than our nominal value of £97k. There were three uncorrected misstatements to bring to your attention:

- PPE Valuation (Former Antiques Market) judgemental misstatement (overstatement) of £932k
- PPE Valuation (158-159, 160, 163 164 & 165 High Street) judgemental misstatement (overstatement) of £263k
- PPE Valuation (Car Parks) judgemental misstatement (understatement) of £1,565k

Therefore net error within PPE of an understatement of £370k

As the difference within PPE is not above our materiality level, we concluded that the balance is materially fairly stated and did not modify our audit opinion in respect of these matters.

There were no corrected misstatements greater than £1.46m to bring to your attention.

## 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
<b>Planning materiality</b>	We determined planning materiality to be £1.94m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
<b>Reporting threshold</b>	We agreed with the Audit & Governance Committee that we would report to the Council all audit differences in excess of £97,000.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures: We audited all disclosures and undertook procedures to confirm material completeness
- ▶ Related party transactions. We audited all disclosures and undertook procedures to confirm material completeness

Section 4

## Value for Money



# Value for Money (VFM)

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We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

## Scope and risks

We have complied with the NAO's 2020 Code of Audit Practice and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 11 November 2021 Audit & Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of the Council and committee reports, meetings with senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

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We had no matters to report by exception in the audit report.

## Reporting

We completed our planned VFM arrangements work in December 2021 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we have no matters to report by exception in our audit report on the financial statements.

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Our VFM commentary highlights relevant issues for the Council and the wider public.

## VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- **Financial sustainability:**  
How the Council plans and manages its resources to ensure it can continue to deliver its services.
- **Governance:**  
How the Council ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness:**  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

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## Financial sustainability

The Council has the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

### **How the body ensures that it identifies all significant financial pressures that are relevant to its short term and medium-term plans and builds these into them**

WCC has various methods in place to ensure it can identify financial pressures, including keeping updated budget reports, to ensure the Council is on plan to meet budget requirements. The Council has a Narrative Statement which shows the annual comparison between budgeted and actual I&E, which assists in showing whether there are financial pressures.

A going concern note is also prepared within the accounts, which details levels of cash and reserves which are currently strong in spite of Covid-19 pressures.

Regular meetings are held, and minutes are available on the Council's website showing this, and any financial issues would be discussed here. A risk register is kept and updated, and one example from the risk register is Brexit, and the potential impact this could have on the funding for the Council.

There are ongoing financial pressures in the local government sector, which has resulted in several councils making significant commercial investments using cheap borrowing through the 'Public Works Loan Board' (PWLB). PWLB is part of the UK treasury and makes loans to local authority at 80BPS above the equivalent UK government Gilt rate. PWLB is also a non-discretionary lender. There is therefore no limit the amount a local government body can borrow, risk premium attached to the level of borrowing, or covenants attached to the borrowing.

## VFM Commentary

Winchester have developed a reasonable portfolio of investment properties, and made some investments in order to generate a return on cash at greater levels than current bank rates. However, they have not pursued investments in riskier commercial ventures. PWLB Borrowing is almost entirely for HRA self-financing (£156m of the £166m). The recent additional £10m was also for the HRA. The GF currently has no external/PWLB borrowing. As at 31/3/21 borrowing (all PWLB) stands at:

- Short term borrowing - £0.1m
- Long term borrowing - £166.7m

The long term assets of the Council, which reflect its more commercial activity were as follows at 31/3/21:

<u>Significant account</u>	<u>Balance</u>	<u>Description of asset</u>
<b>Investment property</b>	£66.8m	The council hold a significant portfolio of investment property, with the most significant being retail assets, followed by garages that have been transferred over from the HRA. The investment properties that would be considered the higher risk would be retail assets which stands at: <ul style="list-style-type: none"> <li>• Retail - £27.7m</li> </ul>
<b>Long term investment</b>	£7.5m	£5m relates to investment in the CCLA pooled property fund
<b>Short term Investment</b>	£9.2m	All ST investments held as bonds or short term fixed interest deposits with either banks or other Local Authorities

Body and not indicative of a higher risk profile.

Although some of its commercial activity such as retail property investments have reduced its level of income due to general market trends, as well as additional Covid-19 pressures which led to rent abatements in 20/21, this has been factored into the Council's budget and MTFP.

The 2020/21 budget was updated and reviewed during the year as the impacts of Covid-19 and subsequent lockdowns unfolded. The budget for 2021/22 and the Medium Term Financial Plan for 2021/22 onwards have since incorporated these Covid-19 pressures and factored in Central Government's C-19 grants which have help to alleviate the pressures on the Council.

The Council have not flagged a material uncertainty in the going concern basis of preparation disclosure in its financial statements around its ability to continue providing the current level of services, this has been supported within the Going Concern note itself as well as their submitted cashflow forecast to March 2023, both of which we have reviewed and agreed as reasonable.

General assumptions underpinning the annual budget and MTFP are as follows:

- Income reduction of 20% for 2021/22 due to Covid-19, returning to normal levels in 24/25
- Pay inflation is captured in the MTFP at 2% for current year and future years. This is for staff related inflationary adjustments, such as pay awards, living wage, NI, Pension etc.
- Contract inflation is also captured at 1% in 2021/22 and increasing to 2% from thereon.
- This is offset somewhat by an annual 3% increase in Council Tax, as well as a 1.2% increase in the Council Tax base.
- In order to balance budgets, Winchester have also put forward a number of savings measures, mostly through Staffing Changes where posts which become vacant are removed rather than filled, saving £1.1m
- Other savings including the charging for green waste (£300k) and reduction in amounts sent to earmarked reserves which are under-utilised.

For Interest Rates and Investments and Borrowing, the Council has a Treasury Management strategy which is monitored regularly. The management strategy confirms the changes to the PWLB lending criteria which precludes a local authority from borrowing from PWLB for any purpose if it plans to purchase assets primarily for yield, but the Borrowing Strategy (section 15) confirms the Council has no such plans.

The Council also has a risk management policy which includes a risk register, which includes documenting financing pressures. Lack of funding is noted in the risk register item CR007, but current controls (including 1 year funding settlement from central govt., quarterly finance monitoring and maintain the General Fund at a consistent level are noted to keep this risk below a Red rating.

## **Financial sustainability (continued)**

### **How the body plans to bridge its funding gaps and identifies achievable savings**

The Council has a policy of setting a minimum General Fund Reserve at £2m as per the risk register (currently maintained at £2.8m). There are also a number of earmarked reserves with a total balance of £28.4m (at 31/3/21) to meet specific liabilities when they fall due.

The Council set a balanced budget for 2020/21 and, during the financial year under audit, for 2021/22. At year end 2020/21 the Council performed better than expected against budget due to additional Central Govt. Covid-19 grants. However, this is not expected to be a continuing trend. Any savings have been allocated to the transitional reserve, to help fund plans for Winchester's climate emergency response, as well as for Covid-19 pressures.

As noted in Question 1, the budget has been balanced through cost saving measures, which total £3.1m and a use of reserves. In future years, as per the MTFP, there are additional budget shortfalls which are expected to be mitigated through similar means as in 2020/21 and 2021/22. It is noted that the Council state that more commercial ventures have not created the gains expected and therefore are not considered to be a viable short term solution to funding gaps, as well as making reference to the changes to the PWLB restrictions on lending. The option to not implement the savings proposals and to rely on reserves to meet projected shortfalls has been considered. However, the uncertainty regarding future funding makes it essential to retain a reasonable level of operational reserves. This is particularly important when the existing commitments from these reserves are recognised and their importance in supporting the capital programme.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

### **How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities**

The annual budget and MTFS sit alongside and facilitate the Council's Corporate Plan for 2020-25. The Council Plan was developed collaboratively with elected members, staff, partners and other stakeholders to prioritise the most important areas the Council needs to focus on in the future. This is done for the Council's limited resources to be spent on the areas where it is needed most. It considered in parallel with the budget. As it is aligned to the budget and MTFP, it is intended to act as the framework in which investment decisions can be made based on agreed priorities and the outcomes the Council wants to achieve.

## **Financial sustainability (continued)**

The Council's overriding objective is to provide services to residents in the area. The corporate plan details the overall vision of WCC, with its main priorities being:

- Tackling the climate emergency and creating a greener district
- Homes for all
- Vibrant local economy
- Living well
- Your services. Your voice

The process of preparing the budget begins with using approved MTFP and updating with more detailed information as this becomes known. The financial and delivery performance against the Corporate plan priorities is performed quarterly. This Financial Performance Monitoring document also provides monitoring of the overall financial performance against budget, capital spend and project management reports. Where this performance information suggests a financial impact this is reflected within the proposed budget.

### **How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system**

Also see the commentary against sub-criteria 1. above for how the MTFP and budget is derived. An example of the other plans being incorporated into budgets is evidence by the HRA budget and business plan for 20-21. This budget includes details of the HRA capital programme, with increases of £173m to help build new homes. This also fits in the with Corporate plan priority of Homes for All. The Capital Strategy is published over a 10 year period in order to allow this to be factored into the MTFP.

Projections on the planned level of capital spending, borrowing and interest rates are considered each time the MTFP is updated.

## Financial sustainability (continued)

### **How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans**

See commentary above for related processes. The Council regularly reviews and monitors potential risks to financial resilience. We consider there to be no specific risks to WCC that are outside the normal risks faced by all local government bodies. The main risks to the Council's financial resilience are driven by:

- Reduced Government funding
- Reliance on strategic partners to deliver services and projects
- Financial impact of a pandemic, including national and local budget pressures
- Macro economy, including Brexit, reduces locally generated Business Rates and parking income
- Failure to achieve income targets
- Inflation rises

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## Governance

### **How the body monitors and assessed risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud**

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Council has sought to develop systems to identify, evaluate and mitigate risks which threaten its Council's ability to meet its objectives to deliver services to the public. To ensure that risks are appropriately mitigated, a Risk Register has been developed. These risks are regularly reviewed by WCC

This details the risks facing the Council and the impact on critical services. The Corporate Risk Register is managed by the Council's Executive Leadership Board (ELB) and updated for newly stated risks and ongoing matters on a regular basis. Risk owners for corporate risks are generally a member of ELB. This risk register is included with the Risk Management Policy and formally agreed by Cabinet. Audit & Governance Committee reviews the risks and policy to make comments to cabinet on the efficacy of the arrangements for managing risk at the council. The Council operates a system akin to a "Three line of defence" model in order to identify and manage risks, as follows:

First line of defence:

As the first line of defence, Service Lead or service managers own and manage risks within their service area. They are also responsible for implementing appropriate corrective action to address, process and control weaknesses.

## **Governance (continued)**

Service Leads are also responsible for maintaining effective internal controls and managing risk on a day to day basis. They identify, assess, control and manage risks ensuring that their services are delivered in accordance with the council's aims and objectives.

Second line of defence:

The second line of defence relates to the strategic direction, policies and procedures provided by the council's oversight functions (e.g. Finance, Legal Services, Procurement and HR). These teams are responsible for designing policies, setting direction, ensuring compliance and providing assurance. Included within the Anti-Fraud and Corruption Policy is the council's Whistleblowing Policy which encourages staff to report concerns which may expose the council to risk.

Third line of defence:

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the organisations operations. It helps the council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The aim of internal audit's work programme is to provide assurance to management, in relation to the business activities, systems or processes under review that the framework of internal control, risk management and governance is appropriate and operating effectively; and risks to the achievement of the council's objectives are identified, assessed and managed to a defined acceptable level. Such risks are identified through senior management liaison and internal audits own assessment of risk. External audit, inspectors and regulators also provide assurance on the management of risk and delivery of objectives.

We have reviewed the risk register for March 2021 as taken to Cabinet. The key risks (red rated) identified in the risk register relate to the response to the climate emergency (e.g. moving to carbon neutral by 2024). Areas within the remit of our Vfm work, including effective partnership working, financial viability, business continuity and cyber security are all considered to be medium risks due to the mitigations the Council have been able to put in place, which includes the regular performance monitoring that occurs in each of these areas. Financial risks are rated as a medium risk due to the mitigation of the Council's strong levels of reserves.

The Council has an established anti-fraud and corruption strategy , anti-money laundering policy and whistle-blowing arrangements that are accessible on its website.

## **Governance (continued)**

There is an established internal audit function, performed by the Southern Internal Audit Partnership (SIAP) and programme of work and an annual opinion on internal control is given by the Head of Internal Audit. There is also an Internal Audit Charter which describes the purpose, authority and responsibility of internal audit. The Head of Internal Audit opinion for 2020/21 provided reasonable assurance over the Council's framework for governance, risk management and control.

### **How the body approaches and carries out its annual budget setting process**

The budget is derived both bottom-up and top-down. The original budget for 2019/20 plus any in year permanent budget approvals is rolled forward as a starting budget for 2020/21. Meetings are then held with managers where they make changes to the starting budget as they see appropriate, based on their forecasts. Changes are brought back to Finance for challenge, before scrutiny by the Scrutiny Committee and then Cabinet before final approval at Full Council. The budget is reviewed quarterly, and where significant changes are identified in year which results in the original budget being no longer reflective of the actual conditions in year, the budget is updated. This was the case for the 20/21 budget where impacts Covid-19 pandemic resulted in a forecast year end deficit of £10.7m compared to the General Fund budget approved by Council in February 2020. The budget was therefore considered to require amendment to reflect the reduction in economic activity. The budget would also include projections of likely scenarios dependant on the levels of Central Govt. grant funding to help support councils, and an estimate of the length of lockdowns. This updated budget was taken to Cabinet for approval in September 2020. For the 21/22 budget the impacts of Covid-19 have become more clear, as well as Central Government support. This allowed the Council to set the 21/22 budget in February 2021, and has not required additional amendment in year.

WCC have a policy/aim of maintaining the general balance at their minimum reserve level of £2m. In addition to the general fund balance, the Council also hold a number of earmarked reserves to cover unexpected liabilities/increases in costs. For example, they hold a transitional reserve to be used to support the Council's response to the climate emergency, and their move towards being carbon neutral. The Council's aim, therefore, is to decrease the general fund balance to the minimum level whilst maintaining sufficient earmarked reserves to cover their risk exposure. During the year, they report internally on the performance of the general fund, and earmarked reserves.

## **Governance (continued)**

In the 19/20 accounts these reserves were as follows;

- General Fund: £2,788k
- Earmarked reserves: £28,388k

At 31/3/21 the Council's reserves position is as follows per the financial statements:

- General Fund: £14,566k
- Earmarked Reserves: £33,902k

Please note that in 2021/22, £11.782 million deficit will be transferred from the Collection Fund Adjustment Account to the General Fund, these resources are not therefore available funds and the General Fund is effectively at £2,784k

A further £13,237k was also held in the Capital Receipts Reserve which is available for use to support the future capital spending of the Council.

**How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed**

The Strategic Director, alongside the Corporate Head of Finance, are responsible for providing appropriate financial information to enable both the revenue budgets and the capital programme to be monitored effectively. There is a requirement to monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis, as part of the Council's overall financial and performance management reporting process. It is the responsibility of Strategic Directors and Heads of Service to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Finance team. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Strategic Director to any problems.

The Council's financial performance (revenue and capital), savings delivery and business performance are formally reported quarterly through a Performance Monitor. The report combines both financial and service performance monitoring to provide a complete view of the Council's performance and includes:

- Council Plan 2020-25 progress update
- Financial update
- Strategic Key Performance Indicators

## **Governance (continued)**

- Programme and Project Management – Tier 1 project highlight reports
- COVID-19 Council services demand data – April to December 2020
- Notes from Performance Panel (part of the Scrutiny Committee)

As part of the process current and proposed corrective actions to address financial and performance risks are also reported. As evidence for this, we have obtained the challenge from the Performance Panel for the Q3 report, which highlighted that one of the KPIs recorded as green in fact be Amber based on their recalculation. This was agreed to be updated.

There is also an internal audit function which provides an interim report and a year-end report to confirm that control are in place properly. We have obtained the report from internal audit at year end, which reported 1 item with limited assurance, relating to Information Governance – Records Retention. Internal audit provided the following detail as to why limited assurance was given:

*Whilst a retention and disposal policy has been published for staff to ensure their understanding of the requirements when handling personal data, the policy has not been recently reviewed and refreshed. Some departments have their own retention schedules and there is no mechanism in place to ensure corporate consistency. An Information Asset Register was developed in May 2018 for the implementation and compliance with GDPR however the register has not been reviewed or refreshed since it was developed. Some physical records are being retained beyond the assigned retention dates. At the time of reporting, and in respect to a sample of documents selected for the audit, no confirmation/certification had been received to confirm the secure destruction of documents undertaken by a by a third-party contractor.*

The details provided by Internal Audit confirms that this limited assurance item is outside the remit of our value for money assessment.

Statutory financial reporting is prepared at year-end based on the CIPFA requirements. The annual governance statement and the narrative statement confirm that the accounts are prepared in accordance with the relevant financial CIPFA code.

### Governance (continued)

**How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee**

Decisions are taken by the committees of the Council, and are informed by detailed reports produced by officers, with key decisions on Council Policy taken by the Cabinet or Full Council in accordance with the Council's constitution. There is an established Scrutiny Committee and Audit & Governance Committee which is the body formally charged with governance at the Council. The role of the Scrutiny Committee is to hold the Cabinet to account, review decisions made or actions taken in connection with the discharge of any of the Council's functions (including executive functions), and to monitor performance of the Council. The Audit & Governance Committee combines both audit functions, for example considering the work of both internal and external audit and the adequacy of risk management arrangements, and governance functions, for example promoting and maintaining high standards of conduct by Councillors and any co-opted members, and assisting the Councillors and co-opted members to observe the Members' Code of Conduct.

**How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interest)**

The responsibilities and statutory requirements of all officers and members is embedded in the Constitution. All significant actions by the Council which may have legal implications either require authorisation by the Monitoring Officer or individuals specifically delegated to act on behalf of the Monitoring Officer as set out in the Council's decision-making rules. Decision makers are also required to act within the Council's Standing Orders and scheme of delegation which makes provision for legal and constitutional advice to inform such decisions. The Council's Constitution contains a number of check points at which officers are able to identify whether decisions are being taken in compliance with the prescribed rules which ensure legal compliance. The Council has also adopted a Code of Corporate Governance (the Code) which is a framework based on guidance published in April 2016 by the Chartered Institute of Public Finance Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) around 'Delivering Good Governance in Local Government'. The Code is underpinned by the 7 core principles in the CIPFA/SOLACE framework, and is comprised of policies, procedures, behaviours and values by which the authority is controlled and governed. The Code provides the structures and guidance that members and employees require in order to ensure effective governance across the Council.

## **Governance (continued)**

It also sets out the Council's expectations and arrangements in place to help ensure that the Council conducts its business in accordance with the law and proper standards. One of its objectives is to ensure and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

There is an established Employee Code of Conduct, Member Code of Conduct and Protocol for Member/Officer Relations. The Members' code of conduct is also set out in Part 5 of the Constitution . Both members and officers are also required to declare related party interests which we consider as part of our work to gain assurance over related party transactions. Member interests are publicly available on the Council's website.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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## **Improving economy, efficiency and effectiveness**

### **How financial and performance information has been used to assess performance and identify areas for improvement**

The Council produces a report of its Strategic Key Performance Indicators within their Quarterly Performance Reports. These KPIs are linked back to the key priorities within the Corporate Plan. The KPIs are organised into five strategic themes: Tackling Climate Emergency; Living Well; Homes for all; Vibrant Local Economy; Your Services Your Voice. The scorecard is used to flag areas of required improvement, devise actions to address any weakness identified and monitor progress.

The Scrutiny Committee and Cabinet are responsible for considering reported performance against the KPIs and ensuring effective and efficient mitigating actions are taken to ensure targets set are being met. In order to give the performance reports detailed attention, the Scrutiny Committee have set up a Performance Panel to scrutinise the quarterly performance and financial monitoring reports on behalf of the Committee.

### **How the body evaluates the services it provides to assess performance and identify areas for improvement**

As set out previously in this assessment, service performance against Council priorities is considered regularly throughout the year through the Quarterly Financial Monitoring Report. Monitoring arrangements therefore present a complete picture of both business and financial performance. This enables the Council to identify services or capital programmes that are not performing as expected by reference to KPI outcomes against targets which are based on the Council's strategic priorities as per the Corporate Plan. KPIs are given RAG ratings to clearly identify those items that are underperforming, or perhaps require closer monitoring.

### **Improving economy, efficiency and effectiveness (continued)**

The Council continues to monitor and review its corporate priorities and MTFP to ensure that the plan and KPI's are aligned to the changing environment especially given the uncertainties caused by Covid-19 and the impact of the pandemic on the Council's operations and finances.

We have returned to the performance monitoring at year end and reviewed the Q4 performance report. There were no changes to any 'red' rated KPIs, and this particular item would not have a vfm impact - Improving satisfaction for our services - No. of valid Ombudsman complaints total of 2.

Within the Project highlights section, the only item Red rated was the Update to the Local Plan, which was being delayed by the Covid-19 pandemic as lockdowns had prevented in depth consultation on the issues. (Consistent with Q3)

At year end the Council also produce both a General Fund and HRA financial outturn report. The GF outturn confirmed a net revenue surplus of £1.2m compared to the revised budget which has resulted in a lower than budgeted transfer from reserves to maintain a balanced position.

### **How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve**

The Council participate in regular committee meetings which are available to the public to review, and therefore stakeholders can understand what is happening.

The Council produces certain documents throughout the year which give the stakeholders, i.e. the public, employees etc an understanding of how the Council is performing, i.e. budget reports.

The annual statements are also available once audited to the public, which include the narrative/governance statement, which provides transparency to the public.

There is also a 'Transparency' section on the Council website, which gives the public the ability to review the Council expenditure, enabling the Council to be open to scrutiny.

There is also a governance structure in place to ensure performance expectations are met.

### **Improving economy, efficiency and effectiveness (continued)**

#### **Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses with it is releasing the expected benefits**

Winchester City Council purchases goods and services from a variety of suppliers. Details of procurements are documented at <https://www.winchester.gov.uk/about/access-to-data/procurement>. The website also includes details on the terms and conditions and general procurement process, see at <https://www.winchester.gov.uk/business/opportunities-to-work-with-the-council/how-we-buy-a-supplier-s-guide/procurement-guidelines-for-suppliers>. WCC also has a contracts management framework (Last updated – October 2021) to ensure contracts are delivering best value and to foster long-term collaborative relationships with suppliers that strive for continuous improvement in service delivery and efficiencies.

All procurement processes and contract awards must comply with the Council's Contract Standing Orders (CSOs) set out in Part 4.7 of its Constitution which also set out the limited circumstances and processes that need to be followed for those requirements to be waived.

There is an internal audit function that tests whether the controls in place are effective. There are regular committee meetings to discuss the Council performance, and any issues can be raised here.



Section 5

## Other Reporting Issues

## Other Reporting Issues

### **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 complies with relevant guidance.

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

### **Whole of Government Accounts**

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Authority to complete this work as required.

### **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.

### **Other powers and duties**

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

## Other Reporting Issues (cont'd)

### **Control Themes and Observations**

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

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 of which you are not aware.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention

Appendix A

## Audit Fees



## Audit Fees – Winchester City Council

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale Fee – Code work	43,379	43,379	43,379
Scale Fee Rebasing: Fee for further changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	14,670	14,670	
<b>Revised Proposed Scale Fee</b>	<b>58,049</b>	<b>58,049</b>	<b>43,379</b>
Scale Fee Variation (see Note 2)	14,500	TBC	17,971
<b>Total Fees</b>	<b>72,549</b>	<b>TBC</b>	<b>61,350</b>

Note 1 – In our Audit Results Report, we confirmed the final 2019/20 Scale Fee Variation (SFV) had been approved by the PSAA, which was a combination of our scale fee rebasing and scale fee variation submission and represented 69% of our original submission. PSAA did not specifically confirm the value of the SFV which relates to the scale fee rebasing, therefore, we continue to present this at the same value as prior years.

Note 2 – Our SFV for matters specific to 2020/21 is broken down as follows:

- £6000 for additional works required in relation to VfM as per the updated NAO Code of Audit Practise 2020, which is the lower end of PSAAs published expected range,
- £2500 for additional works required as per the updated ISA 540 (estimates) standard, again at the lower end of PSAA's published expected range.
- £801 for IAS 19 Protocol Assurance provided by the Hampshire Pension Fund Auditors
- £382 for HB assurance work
- £1022 for inclusion of PPE/IP valuations as a significant risk, outside of original scope
- £2937 for work performed by our PPE Valuation Specialists, EY Real Estates
- £858 for work performed by our Pensions Specialists, EY Pensions Consulting

We will revisit this estimate once PSAA have confirmed the submission process for 20/21 and discuss with management at that time, before submitting to PSAA for determination.

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