Report to the Standards and Audit Committee

WOKING BOROUGH COUNCIL

Audit Completion Report: Year ended 31 March 2019

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WELCOME
Introduction

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We have pleasure in presenting our final Audit Completion Report to the Standards and Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Standards and Audit Committee. At the completion stage of the audit it is essential that we engage with the Standards and Audit Committee on the results of our audit of the Group and the Council financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We have highlighted in blue text those issues that we previously reported to the Standards and Audit Committee that were issues to resolve and the final schedule of adjustments and audit differences arising from completing the audit.

We look forward to discussing these matters with you at the Standards and Audit Committee meeting and to receiving your input. In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

Leigh Lloyd-Thomas

23 July 2020

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Standards and Audit Committee and Board and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

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This summary provides an overview of the audit matters that we believe are important to the Standards and Audit Committee in reviewing the results of the audit of the financial statements of the Group and Council and use of resources of the Council for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

Overview

Our audit work is complete and we anticipate issuing our opinion on the financial statements for the year ended 31 March 2019 by the end of July 2020.

We are required to bring to your attention a significant change to the audit approach from that reported in the Audit Plan. At the meeting to discuss the Audit Plan on 11 April 2019, we reported that we now intended to adopt an assets based overall financial statements materiality, rather than an expenditure based materiality.

This is due to the composition of the Group financial statements and the significant value of land, buildings and investment property held by the Group to generate income to support the activities of the Council. We continue to apply a lower specific materiality to the Comprehensive Income and Expenditure Statement where this impacts on the reported financial outturn from revenue resources and the impact on revenue reserves.

Details of the materiality levels adopted are shown on the next page.

No restrictions were placed on our work.

There were no additional significant audit risks identified. However, following the impact of the pandemic on the economy and the interruption of normal cash flows of the Council, additional work has been undertaken in respect of the impact on forecast cash balances and going concern disclosures.

We are currently discussing with our Technical Department our proposed unmodified audit report in respect of the additional going concern disclosures included in the financial statements. This is an additional level of review that BDO has recently put in place for all audit reports.

Audit report

We anticipate issuing an unmodified audit opinion on the Council and consolidated Group financial statements.

We are proposing to issue an unqualified use of resources conclusion.

THE NUMBERS

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Final materiality

Final Group financial statements materiality was determined based on 1% of the value of gross assets on the balance sheet. Specific materiality on the Comprehensive Income and Expenditure Statement was based on 2% of income.

Based on the draft financial statements we calculated our final materiality as:

- Group Materiality £15.65 million based on gross assets of £1.565 billion (Council £15.5 million)
- Specific CIES Group Materiality £2.6 million based on gross income of £130 million (Council £2.5 million).

We set our reporting level for clearly trivial misstatements at 2% of materiality levels.

Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements).

We have had group instructions returned and we have reviewed the audit files of the component auditor and can confirm:

- There were no limitations on the audit where information was restricted
- There were no instances of fraud identified at a component level.

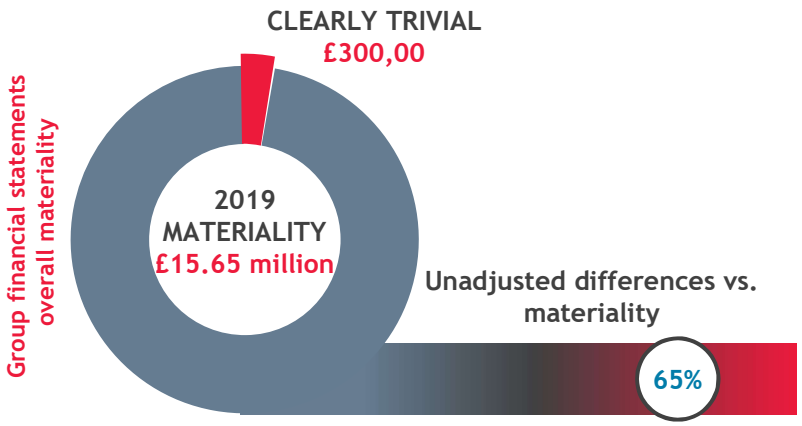
Material misstatements

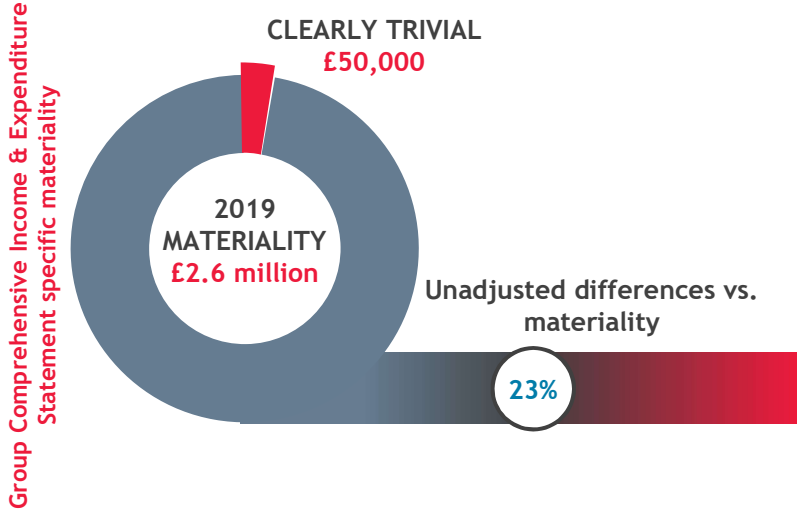
The resolution of outstanding issues resulted in material correction to the financial statements for the classification of revaluation gains and losses between CIES and reserves, presentation of loans to subsidiaries as short term rather than long term in the Council's balance sheet, and reclassification of debtors / creditors and borrowing in the Group balance sheet.

Management has made adjustments to the draft financial statements that has decreased the deficit for the Council by £22.032 million (to £25.523 million) and decreased the Group deficit by £20.514 million. Net assets of the Council has reduced by £1.880 million (Group reduced by £3.126 million).

Unadjusted audit differences

The remaining audit differences, if corrected, would reduce the Council and Group CIES deficit for the year by £0.6 million and increase net assets of the Council by £8.2 million (Group £10.7 million). There is no impact on the General Fund and Earmarked Revenue Reserves balances.





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Financial reporting

- We have not identified any non-compliance with group accounting policies or the CIPFA Code, although the format of the Statement of Accounts continues to be based on the CIPFA model from many years ago and management should review how the financial statements are presented in future.
- No significant accounting policy changes have been identified impacting the current year. IFRS 9 financial instruments and IFRS 15 revenue from contracts with customers has not had a material impact.
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements.
- Going concern disclosures are deemed sufficient following inclusion of additional information to disclose the impact on the Council's operations and cash flows from the pandemic (see page 36).

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council in accordance with the Financial Reporting Council's Ethical Standard.

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AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 22 March 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Revenue and expenditure recognition	Significant	No	No	Yes	No	Reviews over cut off at financial year end should be more rigorous
PPE and investment property valuation	Significant	Yes	Yes	Yes	No	To consider the impact of the amended car park valuations and presentation of gains / losses on revaluations through CIES or reserves
Pension liability valuation	Significant	Yes	Yes	Yes	No	To consider the impact of McCloud and GMP liabilities on the pension liability
Allowance for non-collection of receivables	Normal	No	No	No	No	No
Related party transactions	Normal	No	No	No	No	No
Classification and measurement of financial instruments (IFRS 9)	Normal	No	No	No	No	No
Revenue from contracts with customers (IFRS 15)	Normal	No	No	No	No	No
Group consolidation	Normal	No	No	Yes	No	To consider the presentational adjustments between short term and long term debtors and Group reclassification of debtors / creditors and borrowing.

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls.

Work performed

We carried out the following planned audit procedures:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud; and
- Obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or that otherwise appeared to be unusual, if any.

Results

Our detailed testing of a sample of journals is complete has not identified any issues.

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.

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REVENUE AND EXPENDITURE RECOGNITION

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Under auditing standards there is a presumption that there is a risk of fraud in revenue recognition. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of grants included in income to documentation from grant paying bodies and checked whether recognition criteria had been met; and
- Tested a sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period and that all expenditure that should have been recorded at year end had been.

Results

We have found trivial errors in our testing of expenditure items around the year end. However, based on extrapolation of these errors, we do not believe that this presents a risk of misstatement above our trivial reporting level. We have raised a recommendation regarding arrangement to improve cut-off adjustments for the final accounts.

Our sample testing of revenue and capital grants confirmed that these were recognised when performance conditions attached to them had been satisfied.

Our testing of cut off for revenue did identify that annual parking permits were not being recognised in the correct financial reporting period when they straddled the financial year end, resulting in an overstatement of revenue of £137,000 for permits with expiry dates after the year end. This has been reported as an unadjusted audit error (Ref #1).

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PPE AND INVESTMENT PROPERTY VALUATIONS

There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	■
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. The Council engages a valuation expert to value these assets on a rolling five year programme and these are valued as at 31 March. Due to the significant value of the Council's (and Group's) land, buildings, dwellings and investment properties and high degree of estimation required, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert; and
- Confirmed that the basis of valuation for assets valued as at year end is appropriate based on their usage.
- Reviewed the accuracy and completeness of asset information provided to the valuer including rental agreements and land plot / building sizes; and
- Reviewed the assumptions used by the valuer and movements against relevant indices for similar classes of assets and followed up with the valuer the assumptions used and challenged them on this basis.

Results

Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues. We also confirmed basis of valuation for assets valued in year is appropriate and in line with Code. Our work on the accuracy and completeness of asset information used as the basis of valuation and review of the assumptions used to value the assets identified issues for the valuation of car parks that were no longer operational (see other land and buildings valuations on page 12).

We found an issue regarding the allocation of land and building values not being correctly assigned to each element of the asset in the asset register. Following a revaluation of assets, this resulted in both a gain and a loss being reported on the same asset, in some cases creating an incorrect allocation of the loss being taken to the CIES as an impairment charge rather than being offset against the revaluation reserve.

This resulted in £6.7 million inappropriately charged as impairment to the CIES on three assets. The majority of this related to £6 million impairment charge for the Hoe Valley Sports Facility and this has been corrected (Ref #9). The remaining £0.7m has not been corrected and is reported as an unadjusted audit error (Ref #4).

PPE AND INVESTMENT PROPERTY VALUATIONS 2

Significant estimate

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Council dwellings at Open Market Value Social Housing (£294 million)

< lower valuation | > Higher valuation

Council dwellings are valued at open market value and adjusted to 33% of this valuation to reflect the discounted social rents charged to tenants. The adjustment reflects information provided by DCLG in 2016 for regional differences between market rents and social rents.

A flat rate 2.1% decrease in valuations has been applied to each property for 2018/19 (giving a total revaluation loss of £6.7 million after accounting for stock movements). 2.1% has been determined using the Nationwide Housing Price Index.

We have compared this to house price indices, which show a national average increase of around 1.45% over the same period but prices within the South East of England dropping by 0.4%. Although the index reduction in value applied to the dwellings is slightly greater than this benchmark, it is broadly in line with the land registry data for Woking which shows an average 1.45% decrease across all properties. We have reviewed the type of property owned by Woking and are satisfied that the 2.1% decrease is reasonable based on the property portfolio mix.

We are satisfied that the valuations are within a reasonable range although may tend to the lower end of valuations based on a localised index.

Buildings at Depreciation Replacement Cost (£44 million)

< lower valuation | > Higher valuation

Leisure centres are valued at depreciated replacement cost using the existing gross internal area and estimated rebuild costs. This valuation is reduced to reflect the age and remaining useful economic life of the building. We confirmed the cost per sq/m and location factor used to the BCIS database. For a sample of material assets we obtained the input data provided to the valuer and reviewed the valuations for accuracy. No issues were identified as a result of this test.

Hoe Valley land and leisure centre - componentisation of land and building elements

The Council acquired land for £6.0 million for the construction of a new school and leisure centre. The land was correctly included in Property, Plant and Equipment (PPE) in the balance sheet and held within an Assets under Construction (AuC) line. The Council capitalised construction costs of £13.3 million as PPE in the balance sheet and held within AuC. The combined capital cost in AuC at completion was £19.3 million. The valuation of the site was given as £24.5 million at 31 March 2019, and the valuer provided a split of this valuation for accounting purposes for land at £12.4 million and the building at £12.1 million. The Council previously accounted for this valuation to report that the land has increased in value by £12.4 million (from £0 to £12.4 million) and taken the gain to the revaluation reserve. Previously the building valuation was accounted for as a fall in value of £7.2 million (from £19.3 million to £12.1 million) and taken this as expenditure through an impairment charge to the CIES.

Our initial view was that this treatment was not appropriate given that it had created both a large impairment loss charged to expenditure for the building and a large gain on the land taken to reserves, as it was possible to dispose of the land and buildings as a single 'economic unit' and not create an impairment loss. Management disagreed with our view and provided a written response to our concerns. We sought and obtained a technical interpretation from the BDO Technical Standards Group having reviewed the extant IFRS and CIPFA Code guidance. Whilst this found that it was possible to report both a gain on the underlying land component of a single asset alongside a loss on a building for an asset, in this case the failure to appropriately allocate an appropriate share of value between land and buildings in the brought forward values was incorrect. As a result the CIES had been incorrectly charged £6 million impairment that should have been offset against the gain taken to the revaluation reserve (Ref #9).

PPE AND INVESTMENT PROPERTY VALUATIONS 3

Significant estimate

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Other land and buildings at Existing use value (part of Other Land and Buildings £158 million)

< lower valuation | > Higher valuation

Other land and buildings valued at existing use current value have been revalued downwards by a net £1.8 million (-7%). MCSI regional capital growth indices (for buildings) show regional price movements of -9.5% for retail, +1.1% for office, and +9.6% for industrial, for the period Q1 2018 to Q1 2019. The variances observed is largely as a result of a net downwards movement across various car parks of £3.7 million offset by an increase of £1.9 million for the Monument Way Depots.

Prior to our audit of the valuation of other land and buildings held at EUV the Council challenged the valuer around the assumptions for the split between land and buildings for car park valuations. An updated valuation was provided by the valuers which rectifies this and effects the valuation movement recorded in the CIES and revaluation reserve by £16.644 million, but does not effect the overall valuation.

We queried the valuations for car parks that were no longer operational and as a result the valuer reduced the Toys 'R' Us car park valuation down by £14.1 million. In responding to our queries, the valuer also updated the net income amounts for each car park based on the latest management accounts data, and the increased net income for the year on other car parks that increased the valuations on the other car parks by £22.5 million. Overall, this resulted in a net increase in the valuation of the Council's car parks by £8.382 million. This has not been corrected and is reported as an unadjusted audit error (Ref #2).

Investment properties at fair value (Group £506 million)

< lower valuation | > Higher valuation

Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rent yields. This could potentially include an increase where the purchaser may be able to amend the consents for use or develop the property and increase the value of the asset.

Investment properties have seen an overall decrease in valuation of £14 million in year. MSCI Sector Capital (regional) index from the Gerald Eve report suggests a small decrease in values between Q1 2018 and Q1 2019 at the effective date of revaluation. For all material investment property revaluations we reviewed the input data provided to the actuary and assessed this against the valuation report to confirm accuracy.

Investment properties measured at fair value owned directly by the Council are valued at £330 million and the Group financial statements include a further £176 million investment properties at 31 March 2019, mainly comprising housing units. We have undertaken a review of the work completed by the component auditor on these assets, and noted that the directors had last formally revalued these assets some years ago and since then concluded that the previous valuation was not materially different to prevailing market values. We applied regional housing price indices to the previous valuation, adjusted for acquisitions, new builds and disposals and estimated that the carrying value is some £2.5 million higher than the valuations used by the directors. This has not been corrected and is reported as an unadjusted audit error in the Group financial statements (Ref #3).

In previous years this difference could have been greater but has been offset to some degree by the downturn in housing values during 2018/19.

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PENSION LIABILITY VALUATION

There is a risk that the membership data and cash flows provided to the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The net pension liability comprises the Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions. An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Checked whether any significant changes in membership data have been communicated to the actuary; and
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.
- Reviewed the controls for providing accurate membership data to the actuary.

Results

Following the Court of Appeal decision not to allow Government leave to appeal the McCloud age discrimination judgement with respect to public sector pensions, we requested that the Council obtain an updated pension liability valuation to include the estimated additional future costs arising from potential remedy of effected Council previous and current staff (see page 15).

The amended valuation provided by the actuary found that a further adjustment had been made to reduce the Council's share of the pension fund assets down by £1.268 million. We discovered that the actuary's initial valuation had used an estimate of the pension fund final asset valuation to 31 March 2019, and the amended report was corrected to use the actual final asset valuations. This has been corrected in the financial statements (Ref #3).

We have agreed the disclosures to the information provided by the actuary and identified no issues.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted on the following page.

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PENSION LIABILITY VALUATION 2

Significant estimate

Council's pension liabilities (£171 million funded LGPS and £5 million unfunded promised retirement benefits)

< lower valuation > Higher valuation

The Council's pension liability has increased from £163.7 million to £176.6 million and it's share of the scheme assets increased from £101.5 million to £107.8million. The net deficit increased by £6.7 million to £68.9 million. The increased liability includes £8.8 million arising from changes to financial assumptions including annual salaries increases at 2.8% (previously 2.7%), annual pension increases of 2.5% (previously 2.4%), and a change in the rate of discounting scheme liabilities to 2.4% (previously 2.6%).

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- CPI increase	2.5%	2.40 - 2.50%	Reasonable
- Salary increase	2.8%	1.0 - 3.50%	Reasonable - short term assumption of +1% and post 2020 set in line with RPI
- Pension increase	2.5%	2.40 - 2.50%	Reasonable
- Discount rate	2.4%	2.40 - 2.50%	Reasonable
Commutation			
- Pre 2008	25%	25 - 75%	Reasonable
- Post 2008	63%	25 - 75%	Reasonable
Mortality:			
- Male current	24.1 years	23.7 - 24.4	Reasonable
- Female current	26.4 years	26.2 - 26.6	Reasonable
- Male retired	22.5 years	21.5 - 22.8	Reasonable
- Female retired	24.6 years	24.1 - 25.1	Reasonable
Mortality gains	CMI 2013 (+1.25% improvement rate) with Club Vita local adjustments		Reasonable

We consider that the assumptions and methodology used by the Council's actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Hymans Robertson do tend to produce slightly higher liabilities calculations than the other actuaries, and the relative liability compared to assumptions used by others could result in a liability being at 103.1% using an average of all the actuaries

PENSION LIABILITY VALUATION 3

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McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not received this underpin of benefits, Government will have to remedy the discrimination in the LGPS.

The Government Actuary Department (GAD) has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

The Council has obtained an updated valuation of the liability to take account of the impact of this ruling. This increased the Council's liability by £245,000 (0.14% of the liability). We have completed our work on this area and ensured the assumptions used by the actuary are in line with the GAD report.

This has been corrected in the financial statements (Ref #3).

GMP equalisation

Following a ruling on gender discrimination in the Lloyds Banking Group case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). The Government's interim solution, originally in place from 2016 to 2018, has been extended to 2021 and it is not yet clear whether the LGPS (through employers) or Government will fund these additional costs after 2021.

An LGPS wide assessment of additional liabilities arising from GMP equalisation for the interim solution between 2016 to 2018, the extension from 2018 to 2021, and potential post 2021 costs falling on the LGPS could increase liabilities by +0.3%.

The Council has obtained an updated valuation of the liability to take account of the impact of this ruling. This increased the Council's liability by £359,000 (0.21% of the liability). We have completed our work on this area and ensured the assumptions used by the actuary are in line with the GAD report.

This has been corrected in the financial statements (Ref #3).

Impact on other assumptions

A consequential impact of these adjustments has also increased the actuary's interest costs on liabilities by £8,000.

This has been corrected in the financial statements (Ref #3).

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There is a risk over the valuation of the allowance for the non-collection of arrears and debt.

Significant risk	
Normal risk	■
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The Group recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of it's share of business rates and council tax. There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes in account assumptions about the future credit losses. However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.

Work performed

- Reviewed the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.
- We have reviewed the assumptions used in the expected credit loss model on financial instruments that have demonstrated a significant increase in credit risk since initial recognition.

Results

Please see the analysis of the bad debt provision across the key debtor areas over the following pages. The largest allowance for bad debt is charged against housing benefits overpayments at £1.064 million. We have reviewed the bad debt allowance calculations and are content with the approach and the methods employed by the Council.

We have reviewed the information provided on the expected credit loss model and are content that no impairment has been recognised in the accounts.

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Council tax arrears (Total collection fund £2.648 million the Council's share £334,000)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection in relation to its share of the council tax arrears of £142,000 against its share of the arrears of £334,000 (total collection fund arrears is £2.648 million). The Council's provision has increased by £7,000 from the prior year.

The provision is estimated using historic collection rate information and CIPFA recommended percentages to be applied to debt of a certain age.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of arrears.

NDR arrears (Total collection fund £2.238 million the Council's share £680,000)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection in relation to its share of the NDR business rates arrears of £271,000 against its share of the arrears of £680,000 (total collection fund arrears is £2.238 million). The Council's provision has remained consistent to the figure from the prior year.

The provision is estimated using historic collection rate information and CIPFA recommended percentages to be applied to debt of a certain age.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of arrears.

Rent Deposit Scheme Debt (£481,000)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection of Rent Deposit Scheme debt of £431,000 on total debt of £481,000. The Council's provision has decreased by £121,000 from the prior year. The provision is estimated using historic collection rate information and the judgement of key finance personnel. The likelihood of bad debt is high, which reflects the size of the allowance against the total debt balance.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

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Housing benefits overpayments debt (£1.963 million)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection of housing benefits overpayment debt of £1.064 million on total debt of £1.963 million. This has increased by £82,000 from the prior year.

The provision is estimated using historic collection rate information and CIPFA recommended percentages to be applied to debt of a certain age.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

Housing rents arrears (£524,000)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection of housing rents arrears of £318,000 on total debt of £524,000. This has increased by £18,000 from the prior year.

The provision is estimated using actual year end account arrears figures, with a judgemental recovery scale provided based upon historical recovery information.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

General Fund debt - Sundry Debtors (£3.474 million)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection of sundry debt arrears of £409,000 on total debt of £3.474 million. This has decreased by £320,000 from the prior year.

The provision is estimated using the year end aged debtor report and the judgement of key management personnel to inform the debt level to consider.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

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RELATED PARTY TRANSACTIONS

There is a risk that related party disclosures are not complete and accurate.

Significant risk
Normal risk
Significant management estimate or judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

Risk description

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Standards and Audit Committee.

There is a risk that related party disclosures are not complete or accurate.

Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and review councillors' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertook Companies House searches for potential undisclosed interests.

Results

We have completed our testing on related party transactions and do not have anything to bring to those charged with governance's attention.

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CLASSIFICATION OF FINANCIAL INSTRUMENTS (IFRS 9)

There is a risk that financial instruments are not classified and measured in accordance with IFRS 9.

Significant risk	
Normal risk	■
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	■
Significant Control Findings	
Letter of Representation point	

Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the new classification of financial instruments in accordance with the guidance on both the Council and the component bodies in the Group; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.
- We have reviewed the expected credit loss impairment model applied to loans secured by assets.
- We have reviewed the classification and measurement of loans to subsidiaries to ensure measurement and classification comply with the requirements of the new accounting standards.

Results

We are satisfied with the Council's assessment and classification of financial instruments under IFRS 9.

We have requested that management provide additional disclosures regarding the expected credit loss note to fully comply with the requirements of IFRS 9.

REVENUE FROM CONTRACTS (IFRS 15)

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There is a risk that revenue from contracts with customers is not measured in accordance with IFRS 15.

Significant risk
Normal risk
Significant management estimate or judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

Risk description

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised. CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue. The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements.

There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the impact of the new '5-step model' on revenue streams on both the Council and the component bodies in the Group; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

Results

Based on our review work we are satisfied that the new accounting standard does not have a material impact on the Council's revenue streams.

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GROUP CONSOLIDATION

Risk description

The Group financial statements include a large number of subsidiary entities with intra-group transactions and balances to be eliminated. Due to the complexity and number of subsidiaries that there may be errors in the consolidation process and/or failure to eliminate intra-group transactions and balances. Many of the subsidiary entities produce audited accounts to 31 December and there is a risk that material transactions for the remaining three months to the Group year end at 31 March may not be reported or valuations may be materially different.

Work performed

We carried out the following planned audit procedures:

There is a risk that due to the complexity and number of subsidiaries that there may be errors in the consolidation process and/or failure to eliminate intra-group transactions and balances.

Significant risk	
Normal risk	■
Significant management estimate or judgement	
Use of experts	
Unadjusted error	■
Adjusted error	■
Additional disclosure required	
Significant Control Findings	■
Letter of Representation point	

- Agreed the component entities' group consolidation returns to the audited accounts;
- Agreed any subsequent adjustments reflected in the returns for material transactions and valuation updated to 31 March 2019 to underlying transactions and valuation certificates;
- Agreed the consolidation process and intra-group elimination of transactions and balances; and
- Reviewed the adjustments made to Group accounts following the publishing of the draft accounts.

Results

We identified differences between the amounts included in the consolidation and the published subsidiary accounts. The Council explored this and updated the consolidation amounts for amendments made to the audited financial statements of the subsidiaries in the Group financial statements (Ref #12).

Our review of the consolidation working papers found a number of issues:

- Some of the loans to Thameswey Group due to mature in 2019/20 were treated as long-term debtors as they were used to fund long term projects but this did not match the short-term classification in the subsidiary accounts.
- The balance sheet included loan repayments that were erroneously included within a previous consolidation adjustment.
- Adjustments were required to ensure the Thameswey loan balance matched the subsidiaries' records requiring an adjustment to increase long term borrowing.

These have been corrected to reclassify £23.5 million long-term debtors to short-term debtors in the Council's balance sheet (Ref #10), and the Group balance sheet adjusted to reclassify £3.109 million from short term debtors to long term debtors and £16.641 million from short term creditors to long term borrowing (Ref #11).

All transactions in the subsidiaries' financial statements should be taken through the Group CIES Provision of Services line or Other Comprehensive Income line, and the total movement should agree to the movement in reserves of the Group balance sheet. We noted differences between the Group Movement in Reserves Statement (MiRS) and the Group CIES of £103,000 for provision of services and £76,000 on Other Comprehensive Income, with a combined difference of £179,000. There is also an adjusting consolidation entry included in the Group MiRS of £1.511 million. This indicates a potential error in the Group CIES where revenue or gains have been omitted and the CIES Total Comprehensive Income and Expenditure deficit is overstated by £1.511 million. However, this is within materiality and we have therefore not performed any additional work.

OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Financial statements format and layout including positioning of accounting policies and disclosure note references.	The format of the Statement of Accounts and financial statements follow a CIPFA model format that was replaced many years ago, and does not follow recommended practice either in accordance with the CIPFA Code or IAS 1 presentation of the financial statements. We would recommend that a thorough analysis and review of the layout and format of the annual report and financial statements is undertaken. We also suggest including a header or footer on each page to show that these are "Woking Borough Council – Statement of Accounts for the year ended 31 March 2019".
After the draft accounts were presented for audit, management made a handful of adjustments that we have included on the adjustment schedule on page 29. Ref #5 some expenditure and income activity was previously misclassified under investment properties whereas it was actually operational assets. Ref #6 transfer of 'rent adjustments' from the investment property acquisition of Woking One. This included adjusting the property valuation to include the SDLT paid on purchase.	These adjustments were highlighted to the audit team during the audit process. Management have fully adjusted for this errors in the final set of accounts. The journal entries have been agreed to the final accounts and have been set out on page 29.

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Issue	Comment
Depreciation and impairments on General Fund assets are not proper charges to the General Fund and are reversed in the MiRS to the Capital Adjustment Account. There is a statutory requirement to charge a prudent amount to taxpayers each year through a 'minimum revenue provision' (MRP) to set aside resources to repay unsupported borrowing used to finance the acquisition of those assets. A measure of the extent of unsupported borrowing to finance asset acquisitions is the Capital Financing Requirement (CFR). The Council has set aside an MRP charge for the year of £4.849 million. The Council's MRP policy to set aside amounts to repay borrowing has determined that the charge will be based around the following principles: • No charge on assets during the construction phase and charges commence once operational • Pre-2008 borrowing set aside at 4% of the remaining balance • Investments in share capital of subsidiaries at 1% of the investment • Some property assets at 1% of the cost (over 100 years such as Wolsey Place) and others mainly at 2% (over 50 years) • 50 year annuity based repayment for recent commercial property acquisitions such as Dukes Court (this method produced a constant charge each year of interest and principal) • Housing developments interest only for initial 25 years than annuity based repayment for years 25 to 50 • No charge on loans to others and subsidiaries (totalling £515 million).	Management explained that there are no charges on the borrowing used to fund the loans to subsidiaries as the intention is that these entities will be able to make sufficient returns in the future to be able to repay these loans. Management would then use these receipts to repay the Council's borrowing. Management stated that it was satisfied that the business models would result in full repayment of the loans over the next 50 years and for that reason consider that no MRP would need to be charged to repay borrowing at this stage. Loan repayments are held, and separately disclosed within capital receipts (£48 million at 31 March 2019). The Government and CIPFA have become concerned that local authorities are not putting aside sufficient resources to repay loans and DCLG issued amended regulations for calculating a 'prudent' MRP charge for any new borrowing and investments from 1 April 2019. This is likely to increase the annual MRP charge for local authorities. While the regulations allow previous MRP policies to continue for historic borrowing, Government has advised that local authorities should revisit their existing MRP policies against the new guidance, particularly for investments where no MRP is currently being charged. Under the revised guidance a higher MRP would have been charged on some historic borrowing. Government is of the view that local authorities should be building up a 'buffer' against potential losses by setting aside an MRP charge even on investments where there is an expectation that the loans will be fully repaid by the investee from future profits or asset sales. We recommend that the Council reviews its existing MRP policy to confirm that it is compliant with the new CLG guidance for investments supported by borrowing from 1 April 2019. We also recommend that for pre-April 2019 investments, that the Council closely monitor the business plans of the subsidiaries to confirm that the loans will be fully repaid. If it considers the loans will not be repaid it would be appropriate to commence making an MRP charge against that borrowing.

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Disclosure issues

Based on our review of the financial statements we noted some notes and disclosures that we request that management should correct. Many of these relate to the issue referred to on the previous pages where the financial statements have used an old CIPFA model to prepare the financial statements.

There are also some inconsistencies in the amounts reported between different notes or the primary statements. While the majority of these are below our trivial level for reporting as errors, as a public facing document the Council should developed improved quality assurance and review of the final published Statement of Accounts to identify these inconsistencies.

- Capital commitments disclosure remove £960,000 in respect of Hoe Valley School and Community Facilities and Victoria Way Car Park Extension commitment to be increased from £100,000 to £635,000 (Balance Sheet Note 4). This has been corrected.
- Analysis of debtors and creditors by nature of balance rather than by counter party.
- The primary statements are presented to report the prior year amounts on the left columns and the current year amounts in the right columns. However, the notes and disclosure reverse this presentation. Good practice requires that the presentation of the notes and primary statements should follow a consistent format.
- The cash flow statement refers to management of liquid resources for movements in short term deposits. Changes to the presentation of cash flow statements in recent years has removed this category of cash items and is now captured by the wider definition of cash and cash equivalents or purchases / sales of investments (Cash Flow Statement and Cash Flow Note 3).
- Investment property should be included as a separate note from Property, Plant Equipment as Investment property should capture rents, costs and movements in one place (Balance Sheet Note 1).
- Where assets are revalued on a rolling basis over 5 years, there is a requirement to analyse the value of assets into the years that these were last subject to revaluation (Balance Sheet Note 5).
- The 'Adjustments between basis of accounting and funding under regulations' note is designed to reconcile movements between the CIES outturn and the General Fund and HRA balances under a statutory funding basis. It should include only the statutory override funding adjustments and present the movements between other usable reserve and net amounts transferred to unusable reserves. The note has been prepared to show only the adjustments that reconcile to the General Fund, do not show the transfers between other usable reserves or unusable reserves, and also appear to include discretionary transfers from the General Fund to other earmarked revenue reserves (MiRS Note 1).
- The financial instruments classification note should include the PFI debt as a financial liability and loans to others / subsidiaries and shareholding as financial assets (Balance Sheet Note 22).
- The financial instruments analysis of gains and losses in the CIES does not agree to the CIES and appears to exclude interest charged on loans to others / subsidiaries (Balance Sheet Note 23).
- The financial instruments fair values analysis (Balance Sheet Note 24) is not consistent with the financial instruments classification note and also appears to exclude some financial assets such as loans to others / subsidiaries and shareholdings. Additional information on how the equity shareholdings would be valued would also need to be included.
- Risks from financial instruments has not adopted the new requirements for presentation for IFRS 9 on credit risks and defaults (Balance Sheet Note 25).

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Disclosure issues (continued)

- The maturity analysis of financial liabilities in the liquidity section (Balance Sheet Note 25) is not consistent with the totals in the financial instruments classification note.
- The cash flow reconciliation to financing activities has not been included and the note showing reconciliation to net debt was removed many years ago (Cash Flow Note 2).
- Information on significant cash transactions is not require and also incorrectly refers to £423 million rather then £433 million new borrowing (Cash Flow Note 5).
- Capital Financing Requirement (CFR) note should include loans to subsidiary entities (Balance Sheet 3) and it should be possible to reconcile the CFR to the balance sheet.
- Pension Fund liability information has been updated in most notes for the correction arising from the McCloud judgement except for the table headed 'Information about the defined benefit obligation as at 31 March 2019' showing the analysis between active, deferred and retired members of the scheme.
- Group CIES has included Taxes of £327,000 in Other Comprehensive Income and Expenditure but should be included in the Deficit on provision of services after taxes.

Disclosures that could be removed are reduced

There are also a number of notes and disclosures no longer required by the CIPFA Code, are immaterial and could be removed or where the Council has included excessive detail that can be summarised

- Earmarked reserves lists all 28 separate reserves and some of the smaller balances can be summarised as other so that only the material reserves and movements are shown separately (MiRS Note 2).
- Agency services is not material and this note could be deleted (CIES Note 2).
- Other financial adjustments is not material and this note could be deleted (CIES Note 2).
- Building Control note is no longer required (CIES Note 7).
- Debts written off under delegated authority is not required (CIES Note 8).
- Exit packages include a narrower range of exit cost bands than required resulting in additional levels of detail (CIES Note 11).
- Assets held for sale is £0 and the note can be deleted (Balance Sheet Note 2c).
- Analysis of net assets between the General Fund and HRA, significant items of capital expenditure and analysis of assets held is no longer required (Balance Sheet Note 1a to 2).
- Inventories are trivial and this note could be deleted (CIES Note 8).
- Short term investments and borrowing note does not need to include information on all counter-parties (Balance Sheet Note 11).
- Borrowing note does not need to include all counter-parties and each separately loan from PWLB (Balance Sheet Note 13).
- As there are no commitments this note can be deleted (Balance Sheet Note 18).
- Pension Fund history of experience gains and losses disclosure is no longer required and can be deleted.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the members and Finance Director have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements

Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

Group matters

We have completed our work with the component auditors.

We have had group instructions returned and we have reviewed the audit files of the component auditor and can confirm:

- There were no limitations on the audit where information was restricted.
- There were no instances of fraud identified at a component level.
- We reviewed in further detail the valuation of the investment properties recognised in the Thameswey Group. As noted earlier, we concluded that the valuation should have been indexed over the years to provide a more accurate valuation of the housing assets. We have met with the directors of the company and recommended that the directors either obtain an up to date valuation of the housing assets or provide additional support to evidence the assessment that the carrying value is not materially different to the market value.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

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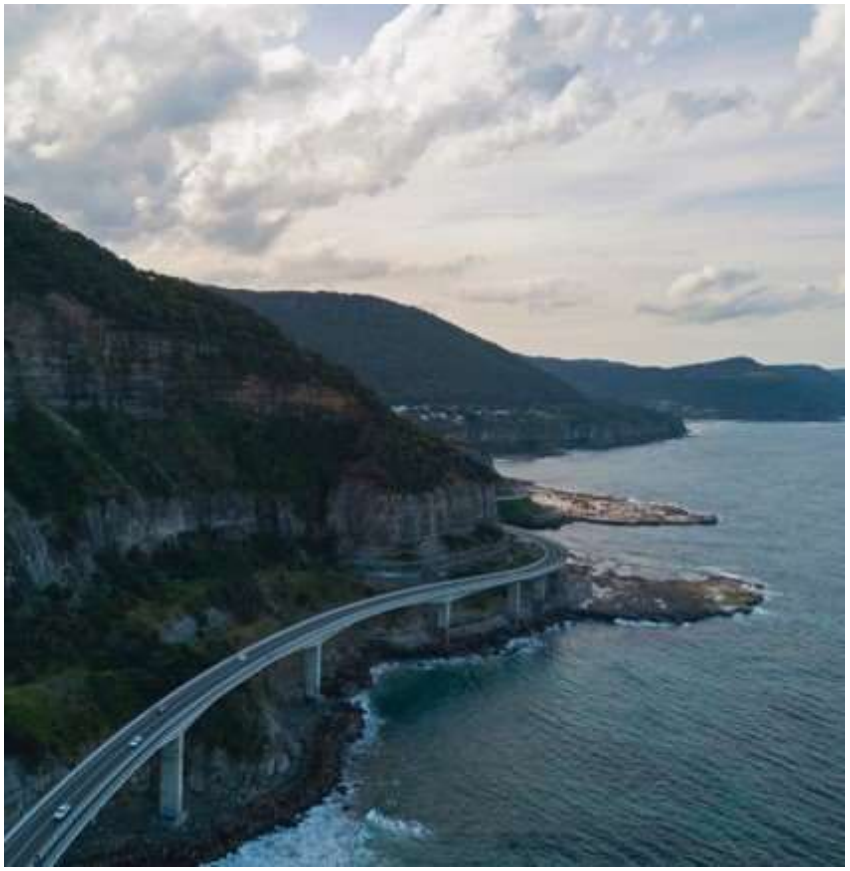

We are required to bring to your attention unadjusted differences and we request that you correct them.

We have identified four misstatements that if corrected would reduce the Council and Group CIES deficit for the year by £0.6 million and increase net assets of the Council by £8.2 million (Group £10.7 million).

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Council					Group				
		Income and expenditure					Income and expenditure		Balance sheet	
Unadjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Deficit on the provision of services / net assets before adjustments	25,525			202,095		31,395			204,275	
1: Correct recognition of annual parking permits										
Income	137	137				137	137			
Current liability					(137)					(137)
2: Increase in valuation of car parks following subsequent revaluation by valuer										
Investment Properties				8,382					8,382	
Revaluation Reserve					*(8,382)					*(8,382)
3: Increase in Group Investment Property valuation due to indexation										
Investment Properties									2,500	
Revaluation Reserve										*(2,500)
4: Correction of over-impairment following reclassification of assets from AuC and Investment Property to PPE										
Revaluation Reserve				*723					*723	
CIES	(723)		(723)			(723)		(723)		
Total unadjusted differences	(586)			8,245		(586)			10,745	
Deficit on the provision of services / net assets after audit differences	24,939			210,340		30,809			216,266	

* These are adjustments are taken direct to reserves and do not impact on net assets

ADJUSTED AUDIT DIFFERENCES: SUMMARY

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The resolution of outstanding issues resulted in material correction to the financial statements for the classification of revaluation gains and losses between CIES and reserves, presentation of loans to subsidiaries as short term rather than long term in the Council's balance sheet, and reclassification of debtors / creditors and borrowing in the Group balance sheet.

Management has made adjustments to the draft financial statements that has decreased the deficit for the Council by £22.032 million (to £25.523 million) and decreased the Group deficit by £20.514 million. Net assets of the Council has reduced by £1.880 million (Group reduced by £3.126 million).

As these CIES adjustments relate to items that are subject to statutory override (eg pensions, capital and valuations) there is no impact on the General Fund and Earmarked Reserves balances.

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ADJUSTED DIFFERENCES: DETAIL

Details for the current year

	Council					Group				
		Income and expenditure		Balance sheet			Income and expenditure		Balance sheet	
Adjusted differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Deficit on the provision of services / net assets before adjustments	47,557			203,975		51,909			207,401	
5: Adjustment for the misclassification of operational properties as investment properties										
Place - Environment and Regulatory Services - Expenditure	1,920	1,920				1,920	1,920			
Place - Environment and Regulatory Services - Income	(589)		(589)			(589)		(589)		
Expenses incurred on investment properties	(1,920)		(1,920)			(1,920)		(1,920)		
Rentals received on investment properties	589	589				589	589			
6: Transfer of 'rent adjustments' from investment property acquisition to CIES										
Investment Property				1,052					1,052	
Income in Advance					(1,044)					(1,044)
Sundry Deposits					(8)					(8)
7: Adjustment to pension valuation following updated actuarial report										
Past service costs	612	612				612	612			
Net pension liability					612					612
Pension reserves				*1,268					*1,268	
Net pension liability					1,268					1,268

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Details for the current year

	Council					Group				
		Income and expenditure		Balance sheet			Income and expenditure		Balance sheet	
Adjusted differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
8: Client adjustment following land & buildings allocation update in car parks										
Revaluation Reserve				*16,644					*16,644	
People - Expenditure	(16,644)		16,644			(16,644)		16,644		
9: Correction of Hoe Valley Sports Facility valuation										
Revaluation Reserve				*6,000					*6,000	
People - Expenditure	(6,000)		6,000			(6,000)		6,000		
10: Correction of classification of LT loans to Thameswey Group in Council financial statements										
Short Term Debtors				23,500						
Long Term Debtors					23,500					
11: Correction of group consolidation adjustments										
Short Term Debtors									3,109	
Long Term Debtors										3,109
Short Term Creditors									16,641	
Long-Term Borrowing										16,641

* These are adjustments are taken direct to reserves and do not impact on net assets

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Details for the current year

	Council					Group				
	Income and expenditure			Balance sheet		Income and expenditure			Balance sheet	
Adjusted differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
12: Updates from draft subsidiaries accounts to final										
CIES						1,518	1,518			
Reserves										*272
Net assets										1,246
Total adjusted differences	(22,032)			(1,880)		(20,514)			(3,126)	
Adjusted deficit on the provision of services / net assets	25,525			202,095		31,395			204,275	

* These are adjustments are taken direct to reserves and do not impact on net assets

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We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We have no matters to report in relation to the Narrative Report.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

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Matter	Comment
For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council met this deadline. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements.

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AUDIT RISKS OVERVIEW

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	None

SUSTAINABLE FINANCES

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The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.

Significant risk	■
Normal risk	
Sustainable resource deployment	■
Informed decision making	
Working with partners and other third parties	
Significant control findings	

The impact of the pandemic on the Council's finances will form part of our review of the arrangements for the 2020/21 use of resources assessment. It does not impact on our review of the arrangements in place in 2018/19.

Risk description

In October 2018, the Council updated the Medium Term Financial Strategy (MTFS) covering the period 2018 to 2022, outlining a strategy to mitigate against cost pressures over the period to 2022. Central government funding is set to decrease. As the Council has a significant level of borrowing in place the effect of these changes will require careful management. The Council is expecting to increase council tax and to collect more income from business rates which will help protect against the reduction in central government funding. However these projections also assume the adoption of certain additional funding proposals which are not guaranteed.

The MTFS, based on current capital plans, requires an additional £3.5 million of ongoing savings or income is required by 31 March 2022, taking into account several expected pressures and assuming a surplus in 2019/20 and 2020/2021.

Work performed

We carried out the following planned audit procedures:

- Reviewing the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied;
- Monitoring the delivery of the budgeted savings in 2018/19 and the plans to reduce services costs and increase income from 2019/20; and
- Reviewed the strategies to close the budget gap after 2019/20.

Results and conclusion

An updated MTFS from March 2019 was provided. This shows that the action taken, including the new strategic and housing investment allocated as part of the 2019/20 budget setting achieves the required savings to 2022/23. A further £1 million has been added to the savings requirement due to a further year of forecast as well as continued funding reductions and Investment Programme costs.

The Council's 'Green Book' showing performance and budgetary information highlights a small overspend against budget of £48,000 in March 2019. However, this excluded income from new properties and the benefit from the business rates pilot which were transferred to reserves.

We are satisfied that the Council has adequate arrangements in place for managing its finances.

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SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Pensions Committee and Board.

As the purpose of the audit is for us to express an opinion on the Group and the Council's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Recognition of expenditure and income that straddle the year end	Annual parking permits were not being recognised in the correct financial reporting period when they straddled the financial year end. We also identified trivial errors in our expenditure sample where transactions were not being appropriately recognised. Whilst the errors that have been found are not considered to be large enough to make an adjustment for, in future reporting periods these errors might require an adjustment.	A review over the year end adjustment process across key revenue and expenditure streams should be undertaken to determine whether any further reviews, guidance or processes should be implemented for financial year ends to capture potential errors in cut off.	Agreed
Group consolidation	Material classification errors were found in the group consolidation working papers.	Additional quality assurance review should be put in place to review the group consolidation process.	Agreed there will be additional review of the consolidation to ensure material balances are classified consistently. The Group Accounts are the final stage in the preparation of the Statement of Accounts. Meeting the statutory deadline of 31 May for publishing the draft accounts, requires all the subsidiary accounts to be finalised and time for review can be limited.

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Area	Observation & implication	Recommendation	Management response
Minimum Revenue Provision charge to General Fund	Management explained that there are no charges on the borrowing used to fund the loans to subsidiaries as the intention is that these entities will be able to make sufficient returns in the future to be able to repay these loans. Loan repayments, held for the repayment of the Council debt are within capital receipts. Management stated that it was satisfied that the business models would result in full repayment of the loans over the next 50 years and that no additional MRP is required to repay borrowing. The Government has issued amended regulations for calculating a 'prudent' MRP charge for any new borrowing and investments from 1 April 2019. This is likely to increase the annual MRP charge for local authorities.	We recommend that the Council reviews its existing MRP policy to confirm that it is compliant with the new CLG guidance for investments supported by borrowing from 1 April 2019. We also recommend that for pre-April 2019 investments, that the Council closely monitor the business plans of the subsidiaries to confirm that, in the current environment, the loans will be fully repaid or, in the event of any risk, it considers whether it would be appropriate to commence making an MRP charge against that borrowing.	The Council approves the MRP policy as part of the Treasury Management, Investment and Capital Strategies in February each year. The current MRP policy is considered appropriate, however it will be reviewed to reflect any changes due to the current environment in preparation for the 2021/22 budget cycle.

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Opinion on financial statements

We anticipate issuing an unmodified opinion on the Group and the Council financial statements.

There are no matters that we wish to draw attention to by way of 'emphasis of matter'.

Conclusion on use of resources

We anticipate issuing an unqualified use of resources conclusion.

Conclusion relating to going concern

Following the outbreak of coronavirus and the difficult trading and operating environment for all entities, BDO has put in place risk management procedures to ensure audit reports are signed having taken due regard to the going concern of all organisations.

Management has provided reforecast budgets for income loss and excess expenditure and the impact on cash balances. We have applied sensitivity analysis to this and are satisfied that the Council will be able to absorb revenue losses through their usable reserves and available cash position. We concur with management that there is no material uncertainty that would require disclosure in the financial statements over the next 12 months.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

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Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Group's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

Details of other threats and safeguards applied were provided in our Audit Plan s.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

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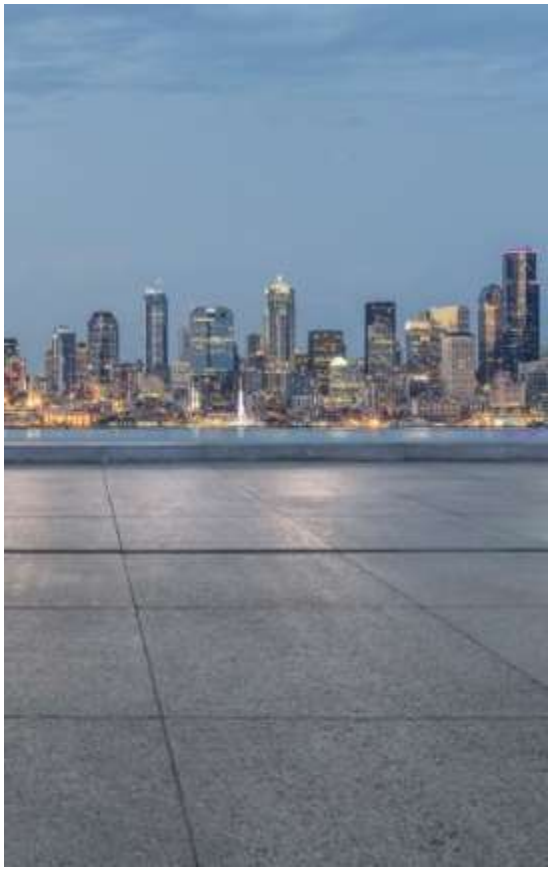
Fees summary	2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
Audit fee			
• Code audit fee	(2) **TBC**	(1) **42,121**	**54,702**
Non-audit assurance services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	7,208	7,208	7,208
• Pooling of housing capital receipts return	3,000	3,000	3,000
Total fees	**TBC**	**52,329**	**64,910**



(1) PSAA has set the 2018/19 fee scale at £42,121 on the basis that individual fees for all opted-in bodies have been reduced by 23 percent from the fees applicable scale fee for 2017/18 of £54,702. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms' costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs.

(2) We have incurred significant additional costs on the 2018/19 audit and have reported to management that the PSAA scale fee does not reflect the level of work required to audit the Council and Group given the complexity of its operations and investments in land, buildings, housing and investment properties. The PSAA scale fee was set many years ago based on net revenue spend and did not have regard to Council's with significant balance sheet investments and borrowing. We are current negotiating with management an appropriate overrun fee for this year's audit.

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RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

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Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidation Group and Council financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Council has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

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ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

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COMMUNICATION AND REPORTS ISSUED

Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Standards and Audit Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	11 April 2019	Standards and Audit Committee
Initial Audit Completion Report	15 July 2019	Standards and Audit Committee
Audit Progress Update	28 November 2019	Standards and Audit Committee
Audit Progress Update	5 March 2020	Standards and Audit Committee
Final Audit Completion Report	23 July 2020	Standards and Audit Committee
Annual Audit Letter	TBC September 2020	Finance Director

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We have completed our audit work in respect of the financial statements for the year ended 31 March 2019.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Standards and Audit Committee meeting at which this report is considered:

- Confirmation that signing the audit report has been approved in-house by the BDO Audit Stream Executive.

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AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WOKING BOROUGH COUNCIL

Opinion on the financial statements

We have audited the financial statements of Woking Borough Council ("the Council") and its subsidiaries ("the group") for the year ended 31 March 2019 which comprise the Council Movement in Reserves Statement, the Council Comprehensive Income and Expenditure Statement, the Council Balance Sheet, the Council Cash Flow Statement, a summary of significant accounting policies for the Council on pages 20 to 29 and the notes to the Council financial statements on page 35 to 73; the Housing Revenue Account Income and Expenditure Account, the Statement of Movement in the Housing Revenue Account Balance and the Housing Revenue explanatory notes on pages 76 to 79; the Collection Fund Income and Expenditure Statement and the Collection Fund explanatory notes on pages 81 and 82; the group Movement in Reserves Statements, the group Comprehensive Income and Expenditure Statement, the group Balance Sheets, the Group Cash Flow Statements, a summary of significant accounting policies for the Group on page 92, and the notes to the group financial statements on and pages 100 and 101; and Pensions explanatory notes on pages 83 to 89.
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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the group as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer's has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

AUDIT REPORT 2

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Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts is consistent with the financial statements.

Conclusion on use of resources

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2017, we are satisfied that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion on use of resources

We have undertaken our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion, published by the National Audit Office in November 2017, as to whether in all significant respects, 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.

The National Audit Office has determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Based on our risk assessment, we undertook such work as we considered necessary. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

AUDIT REPORT 3

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Matters on which we are required to report by exception

We have nothing to report in respect of the following other matters which the Code of Audit Practice requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- 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.

Responsibilities of the Chief Finance Officer and the Council

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which comprises 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, and for being satisfied that the financial statements give a true and fair view.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's and group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council intends to cease operations of the Council or group or has no realistic alternative but to do so.

The Council 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 for the audit of the financial statements

In respect of our audit of the financial statements our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

AUDIT REPORT 4

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Auditor's responsibilities in respect of the Council's use of resources

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criterion specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the Council and group financial statements or on our use of resources conclusion.

Use of our report

This report is made solely to the members of Woking Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's 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 Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Leigh Lloyd-Thomas
For and on behalf of BDO LLP, Appointed Auditor
London, UK

xx July 2020

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AUDIT QUALITY

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

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BDO LLP
55 Baker Street
London
WIU 7EU

[Client name and Letter headed paper]

Dear Sirs

Financial statements of Woking Borough Council for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Group and the Council' financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Finance Director has fulfilled her responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Group and the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. We have made this assessment after reviewing the Council's and Group's forecasts and projections, which are being continually updated in light of the on-going COVID-19 pandemic. The Council is of the opinion that it has sufficient resources and access to cash to meet its liabilities as they fall due.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Council's or Group's ability to continue as a going concern following a review of the financial reserves in light of the post year end impact of COVID-19.

The Council confirms the financial statement disclosures, in relation to COVID-19, clearly explain the impact on Woking Borough Council and the effects of the pandemic.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

Other than as disclosed in note 20 to the accounts, there have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you immediately.

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Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have made the results available to you.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements and disclosures that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below.

In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 6 to the financial statements, there were no loans, transactions or arrangements between any Group entity and Council members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and Council financial statements.

Accounting estimates

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements:

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

Rate of inflation (CPI):	2.5%
Rate of increase in salaries:	2.8%
Rate of discounting scheme liabilities:	2.4%
LGPS commutation take up option:	
Pre-April 2008	25%
Post-April 2008	63%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

b) Valuation of housing stock, other land and buildings and investment properties

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to council dwellings and other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

Where investment properties cannot be assessed as level 1 we are satisfied that they have been appropriately assessed as level 2 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for council tax arrears, NDR arrears, housing benefit overpayments, housing rent arrears and parking charges are reasonable, based on collection rate data.

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Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each member has taken all the steps that they ought to have taken as a member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Leigh Clarke	Claire Storey
Director of Finance	Chair of the Standards and Audit Committee
[date]	[date]

FOR MORE INFORMATION:

Leigh Lloyd-Thomas

t: 020 7893 2616
e: leigh.Lloyd-thomas@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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