WOKING BOROUGH COUNCIL

Annual Audit Letter

Year ended 31 March 2019

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EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2019.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report:

- Our opinion on the financial statements; and
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

BDO LLP

BDO LLP

3 December 2020

Audit conclusions

Audit area	Conclusion
Financial statements	Unmodified true and fair opinion
Use of resources	Unmodified conclusion
Audit certificate	We issued our certificate to close the audit on 26 November 2020.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

FINANCIAL STATEMENTS

Audit opinion on the Council and Group financial statements

We issued an unmodified audit opinion on the financial statements on 26 November 2020. This means that we consider that the financial statements:

- Give a true and fair view of the financial position and its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

Materiality

Group financial statements materiality was £15.65 million (Council £15.5 million) based on 1% of the value of gross assets on the balance sheet. Specific materiality on the Comprehensive Income and Expenditure Statement (CIES) was £2.6 million (Council £2.5 million) based on 2% of gross expenditure.

Corrected misstatements

Management has made audit adjustments to the financial statements that decreased the deficit for the Group by £20.514 million to £31.395 million (Council deficit reduced by £22.032 million to £25.523 million). Net assets of the Group reduced by £3.126 million (Council reduced by £1.880 million).

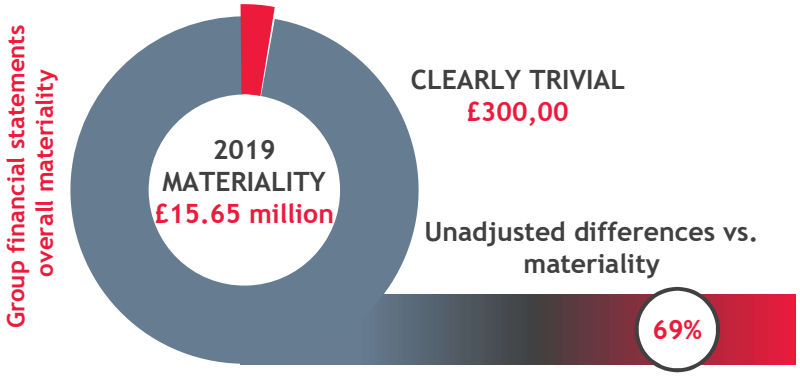
The key adjustments include:

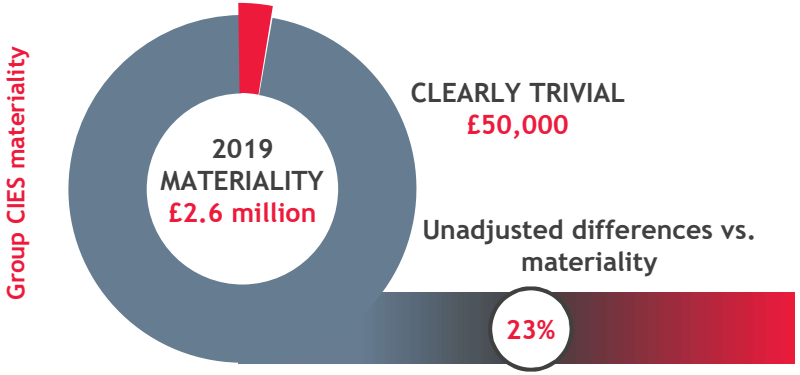
- Updated pension liability valuation;
- Allocation of revaluation gains and losses for car parks and other assets between the revaluation reserve and CIES;
- Reclassification of intra-group balances between short term and long term; and
- Correction to group cash flows between operating and investing activities.

Unadjusted audit differences

The remaining uncorrected audit differences above our trivial reporting threshold, if corrected, would reduce the Council and Group CIES deficit for the year by £0.586 million and increase net assets of the Group by £10.745 million (Council increase by £8.245 million.

These do not impact on the General Fund and Earmarked Revenue Reserves balances of the Council.





FINANCIAL STATEMENTS

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

Risk description	How the risk was addressed by our audit	Results
Management override of controls	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; and • Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud.	We identified no significant or unusual transactions which we consider to be indicative of fraud in relation to management override of controls. We have not found indications of management bias in accounting estimates that represent a risk of fraudulent material misstatement of the financial statements.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Revenue and expenditure recognition	We carried out the following planned audit procedures in response to the fraudulent revenue and expenditure recognition risk: • 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 has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.	Our 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 identified 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. We also found trivial errors in our testing of expenditure items around the year end. We have recommended that management review arrangement to improve cut-off adjustments for the final accounts.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of land, dwellings, buildings and investment property	We carried out the following planned audit procedures: • Reviewed the instructions provided to the valuers and the valuers' skills and expertise in order to determine if we can rely on the management expert; • Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage; • Reviewed the accuracy and completeness of asset information provided to the valuer such as rental agreements and land / building sizes; and • Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and followed up valuation movements that appear unusual.	Our review of instructions to the Council's valuer and the valuer's skills and expertise did not identify any issues. We confirmed that the basis of valuation for assets is appropriate. However, £176 million of assets in the subsidiaries were last formally revalued some years ago and valuations undertaken by the directors since then had concluded that no updated valuation was required. These mainly related to housing assets and 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. We have recommended that these assets are subject to formal valuations more frequently. 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 around the valuation of car parks including the allocation of the valuation between the land and buildings elements and one car park no longer in use. The valuer subsequently corrected the land and buildings allocations and increased the valuations for all car parks by £8.382 million using more up to date income information. We also 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 for three other assets that resulted in both a gain and a loss being reported on the same asset, 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 these assets. The majority of this related to £6 million impairment charge for the Hoe Valley Sports Facility.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of pension liabilities	We carried out the following planned audit procedures: • Reviewed the controls for providing accurate membership data to the 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 actuaries and other observable data.	We received assurances from the auditor of the Surrey pension fund that appropriate controls are in place to maintain accurate membership records and to provide accurate cash flow and investment information to the actuary. We confirmed with the Council that no significant changes in membership took place in the year. We compared the key financial and demographic assumptions used by the actuary to an acceptable range provided by a consulting actuary commissioned for local public auditors by the National Audit Office. The assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the pension liability which falls within a reasonable range. As requested by us, the Council obtained an updated valuation of the liability to take account of the McCloud age discrimination ruling and GMP gender equalisation costs and corrected the financial statements to increase the liability by £0.612 million. This updated valuation also found that the estimated return on scheme assets in the pension fund had been overstated by the actuary and the Council's share of scheme assets was decreased by £1.268 million.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Group consolidation	We carried out the following planned audit procedures: • 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; • 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.	We identified differences between the amounts included in the consolidated financial statements and the published subsidiary accounts where audit corrections had been made to the draft financial statements used in the consolidation. Our review of the consolidation working papers found a number of other issues: • Some loans to the 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 adjustment • Adjustments were required to ensure the Thameswey loan balance matched the subsidiaries' records requiring an adjustment to increase long term borrowing • The Group cash flow statement had misclassified cash flows between operating activities and investing activities • There were differences between the Group Movement in Reserves Statement (MiRS) and the Group CIES on Other Comprehensive Income. We have recommended management review the processes over the consolidation of the component financial statements into the Group.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Minimum revenue provision	We carried out the following planned audit procedures: • Reviewed the MRP policy approved by the Council against recent guidance issued by Government. The Council has set aside an MRP charge for the year of £4.849 million based on the following policy: • No charge on assets during the construction phase and charges commence once operational • Pre-2008 borrowing at 4% of 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 at 2% (over 50 years) • 50 year annuity based repayment for recent commercial property acquisitions such as Dukes Court (this method produces a constant charge each year of interest and principal) • Housing developments interest only for initial 25 years then annuity based repayment for years 25 to 50 • No charge on loans to others and subsidiaries (totalling £515 million).	The Council does not charge MRP 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 and, in turn, the Council would repay its borrowing. Management stated that it was satisfied that the business models would result in full repayment of the loans over the next 50 years. Loan repayments received to date are held and separately disclosed within capital receipts (£48 million at 31 March 2019). 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 existing 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. 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 have recommended that the Council reviews its existing MRP policy to confirm that it is compliant with the new CLG guidance for investments supported by new borrowing from 1 April 2019. We also recommended that for pre-April 2019 investments, that the Council closely monitor the business plans of the subsidiaries in light of the impact of Covid to confirm that the loans will be fully repaid, and whether it would be appropriate to commence making an MRP charge against that borrowing.

USE OF RESOURCES

Audit Risks

Audit conclusion on use of resources

We issued an unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we consider that 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.

We set out below the risk that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
Sustainable finances	We carried out the following planned audit procedures: • Reviewed the assumptions used in the Medium Term Financial Strategy and reasonableness of the cost pressures and the amount of Government grant reductions; • Monitored the delivery of the budgeted savings in 2018/19 and the plans to reduce services costs and increase income from 2019/20; and • Review the strategies to close the budget gap after 2019/20.	An updated MTFS at March 2019 was provided that highlighted the actions taken to address funding gaps, including the new strategic and housing investments, to deliver 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.

REPORTS ISSUED AND FEES

Fees summary

	2018/19 Final £	2018/19 Planned £	2017/18 Final £
Audit fee			
• Council	(2) 107,121	(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
• Pooled housing capital receipts return	3,000	3,000	3,000

(1) Public Sector Audit Appointments Limited (PSAA) had proposed a reduction in planned scale fees of 23% for 2018/19 following the re-procurement of services.

(2) However, additional costs have been incurred in the audit due to the significance of the Council's investments and complexity of the Group that has not been reflected in the PSAA scale fees for some years, and additional work address errors identified in accounting for revaluations and the group consolidation. We propose increasing the final fee for 2018/19 by £65,000 to £107,121 based on the additional hours required for this audit at the PSAA grade contracted rates.

Communication

Reports	Standards and Audit Committee
Audit plan	11 April 2019
Audit Progress reports	Initial findings report 15 July 2019
	Audit Progress reports 28 November 2019 and 5 March 2020
Audit completion report	26 November 2020

FOR MORE INFORMATION:

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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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