

Annual Audit Letter

Winchester City Council

30 October 2014

Ernst & Young LLP



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The Members
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30 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Winchester City Council and external stakeholders, including members of the public, the key issues arising from our work which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of the Winchester City Council in the following reports:

Winchester City Council 2013/14 audit
results report for the year ended 31 March
2014

Presented to the Audit Committee on 25
September 2014

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Winchester City Council for their assistance during the course of our work.

Yours faithfully

Kate Handy
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 18 June 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Winchester City Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 26 September 2014 we issued an unqualified audit opinion in respect of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 26 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 16 September 2014 we issued our report in respect of the Authority. We presented the report to the meeting of the Audit Committee on 25 September 2014.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 26 September 2014. There were no issues to highlight to the NAO.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 26 September 2014 we issued our audit completion certificate.
Issue a report to those charged with governance of the Authority summarising the certification (of grant claims and returns) work that we have undertaken.	On 24 January 2014 we issued our annual certification report to those charged governance with respect to the 2012/13 financial year. We will issue our report for 2013/14 in December 2014.

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 26 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

Significant risk 1: Management override

Our substantive testing has found no evidence of management bias or override. We reviewed material adjusting journals which did not highlight any issues that we needed to report to those charged with governance.

Significant risk 2: Provision for Non Domestic Rate Appeals

We assessed management's approach to estimating the provision and found this to be soundly based for those appeals that had been lodged with the Valuation Office at 31/3/2014. Management found no trends in historic appeals, or significant ratepayers that had not lodged an appeal that could be used as a basis for a provision for unlogged appeals. Therefore a contingent liability was included in the 2013/14 financial statements for 'potential appeals not received'.

Other key findings

We had no other issues to report to those charged with governance.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 26 September 2014. We noted the following issues as part of our audit.

Medium term financial forecasting

The Authority's medium term financial plan (MTFP) is robust. It is informed by the corporate policies, plans and priorities as the key service and financial drivers. Known changes to the level of government grants, pay awards, inflationary pressures, and growth bids have also been factored into the MTFP.

The Authority has identified that in order to balance the budget there is a need for 'significant savings', amounting to £0.6m in 2015/16 and rising to a cumulative total of £2.2m in 2018/19. The Authority has a good track record of achieving planned savings and increasing income. The most recent projections show the 2014/15 budget is balanced. Options for transformational service changes are being developed to deliver further efficiencies over the period of the MTFP.

The Authority plans to replenish its reserves and has employed key principles in framing its MTFP, including ensuring that recurring expenditure is not funded from reserves and that the revenue impact of the capital programme is taken into account.

Arrangements to secure economy, efficiency and effectiveness

The Authority responded positively to the findings of the LGA peer review that was completed in 2013. It has taken action to address the key points raised by the review including tightening its corporate priorities and ensuring they are integrated with its MTFP and financial planning; and reviewing governance arrangements, processes and procedures.

Where the Authority is an outlier in comparison to other district councils in the Audit Commission's profiles comparative data, this was because of conscious policy decisions; the outsourcing of services; the culture of the historic City; or the impact of the local economy and demographics.

The Authority has processes and procedures in place to identify and mitigate the risks arising from the Silver Hill project, and has sought external legal and financial advice where required. It has taken account of the project in its MTFP and requested an independent review of the developer's profit appraisal for the scheme and of the 'Development Account' which will be used to calculate any payments due to the Council.

2.3 Objections and correspondence from electors

We received no objections to the 2013/14 accounts from members of the public. We have therefore issued our audit completion certificate.

We have, however, received and responded to correspondence with electors during the audit. There was no action we needed to take in relation to our responsibilities, under the Audit Commission Act for 2013/14, in response to this correspondence. The correspondence has given rise to an additional fee of £5,333 (subject to Audit Commission approval).

2.4 Whole of government accounts

We reported to the National Audit office, on 26 September 2014, the results of our work performed in relation to the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts. We did not identify any areas of concern.

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement (AGS), identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and requested that management amend the AGS to include reference to the financial reconciliations that were not maintained throughout the year, and to the internal control failings in Accounts Payable that Internal Audit had reported, together with management's response to these matters.

We did not identify any other areas of concern.

2.6 Certification of grant claims and returns

We presented our Annual Certification Report for 2012/13 to those charged with governance on 11 March 2014, having issued our report on 24 January 2014. We certified three claims and returns worth £84m. We did not identify any significant issues from the certification of claims and returns. We will issue the Annual Certification Report for 2013/14 in December 2014.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we communicated to those charged with governance at the Authority, as required, significant deficiencies in internal control.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
During our audit we noted that a number of financial reconciliations were not being regularly completed throughout the year (including bank reconciliations; accounts payable and receivable reconciliations; and suspense accounts).	No impact. Our year end audit found that the year end reconciliations were accurate and complete.
Internal Audit have identified internal control failings in relation to 'Accounts Payable'.	No impact. Management reported their planned response to these weaknesses to the Audit Committee in June 2014.

4. Audit Fees

A breakdown of our fee is shown below.

	Final fee 2013/14 £	Planned fee 2013/14 £	Scale fee 2013/14 £
Total Audit Fee – Code work	*79,547	74,214	74,214
Certification of claims and returns ¹	15,284	15,284	15,284

We undertook no non-audit work at the Council in 2013/14.

Notes:

* Our proposed final fee is in excess of the planned fee because we have responded to correspondence from electors during the audit. This correspondence has given rise to an additional fee of £5,333, which is subject to the Audit Commission's approval.

¹ Our fee for certification of grants and claims is yet to be finalised for 2013/14 as the work is ongoing. We plan to report this to those charged with governance within our Annual Certification Report for 2013/14.

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