

# Notice of Meeting

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## **Governance and Ethics Committee**

**Monday 24 August 2015 at 5.00pm**  
in Council Chamber Council Offices  
Market Street Newbury

Date of despatch of Agenda: Tuesday, 18 August 2015

For further information about this Agenda, or to inspect any background documents referred to in Part I reports, please contact Andy Day on (01635) 519459  
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Further information and Minutes are also available on the Council's website at  
[www.westberks.gov.uk](http://www.westberks.gov.uk)



**Agenda - Governance and Ethics Committee to be held on Monday, 24 August 2015**  
(continued)

**To:** Councillors Steve Ardagh-Walter, Jeff Beck (Vice-Chairman), Chris Bridges, Graham Bridgman, James Cole, Barry Dickens, Lee Dillon, Rick Jones, Anthony Pick and Quentin Webb (Chairman)

**Substitutes:** Councillors Billy Drummond, Sheila Ellison, Alan Macro and Tim Metcalfe

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# Agenda

## Part I

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| 6 | <b>West Berkshire Council Financial Statement 2014/15 including KPMG Opinion (GE3006)</b><br><i>Purpose: To provide Members with the final copy of the Council's Financial Statements.</i> | 1 - 22 |
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Andy Day  
Head of Strategic Support

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**West Berkshire**  
C O U N C I L



*cutting through complexity*

# Report to those charged with governance (ISA 260) 2014/15

**West Berkshire Council**

August 2015

The contacts at KPMG in connection with this report are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

### This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Authority; and
- our assessment of the Authority's arrangements to secure value for money.

### Scope of this report

This report summarises the key findings arising from:

- our audit work at West Berkshire Council ('the Authority') in relation to the Authority's 2014/15 financial statements; and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

### Financial statements

Our *External Audit Plan 2014/15*, presented to you in April 2015, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June and July 2015.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

### VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risks.

### Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Section Three.

### Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages for the Authority. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	<p>Our audit of your financial statements identified one material adjustment relating to the presentation of pensions within the Comprehensive Income and Expenditure Statement. This did not affect the net worth of the Authority or the net deficit. The Authority made a small number of non-trivial adjustments, most of which were of a presentational nature. There was no impact on the General Fund.</p> <p>We have raised one medium and one low priority recommendation relating to the financial statements (<b>Recommendation One and Three</b>), included in Appendix One.</p>
Key financial statements audit risks	<p>We identified the following key financial statements audit risk in our 14/15 External audit plan, issued in April 2015.</p> <ul style="list-style-type: none"> <li>■ Accounting for Local Authority Maintained schools</li> </ul> <p>We have worked with officers throughout the year to discuss this key risk and have reported our detailed findings in section 3. There are no matters of any significance arising as a result of our audit work, although we have raised a recommendation around ensuring that all the assets are registered to the appropriate legal entity with the Land Registry (<b>Recommendation One</b>) included in Appendix One.</p>
Accounts production and audit process	<p>We were provided with a good quality set of draft accounts on 1 June 2015, several weeks earlier than in previous years. This was part of a planned acceleration in order to move towards the July certification deadline that will be required from the 2017/18 financial year. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>The Authority has implemented all of the recommendations in our <i>ISA 260 Report 2013/14</i>.</p> <p>The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> <li>■ Whole of Government Accounts (WGA) return.</li> </ul> <p>Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>

This table summarises the headline messages for the Authority. The remainder of this report provides further details on each area.

**VFM conclusion and risk areas**

We did not identify any VFM risks in our External audit plan 2014/15 issued in April 2015.

We have worked with officers throughout the year and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas although we have raised a medium priority recommendation (**Recommendation Two**) around ensuring that contracts procured across the Authority offer VFM in Appendix One. As part of our work we considered the outcome of the recent inspection by Ofsted, and concluded that because the issue is in a specific area and there is a monitored action plan in place, we do not need to modify our VFM opinion. We expect to see progress on the action plan during 2015/16.

We have therefore concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and anticipate issuing an unqualified VFM conclusion by 30 September 2015.

We have not identified any issues in the course of the audit that are considered to be material.

Our audit has identified a number of lower value audit adjustments which have not affected the CIES or the net worth of the Authority.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2015.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007

### Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Governance and Ethics Committee on 24 August 2015.

### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix Three for more information on materiality) level for this year's audit was set at £6.5 million. Audit differences below £250k are not considered significant.

We did identify one material misstatement which did not affect the net worth of the authority. This related to the presentation of pensions in the Comprehensive Income and Expenditure Statement (CIES) and Movements in Reserves Statement (MIRS) as follows:

- CR CIES Financing and Investment Expenditure £54,236k, DR MIRS Adjustments Between Accounting and Funding Basis £54,236k.
- DR CIES Other Comprehensive Income and Expenditure £54,236k, DR MIRS Movement in Reserves £54,236k.

We also identified a number of issues that have been adjusted by management but did not have a material effect on the financial statements. Of the other audit adjustments we have identified, the most significant in monetary value are as follows:

- £238k equal and opposite adjustment to Non Distributed Costs and Re-measurement of Net Defined Benefit Liability in the CIES which had no net effect on the deficit for the year.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. We understand that the Authority will be addressing these where significant.

### Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a small number of comments in respect of its format and content which the Authority has agreed to amend.




We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

In our *External Audit Plan 2014/15*, presented to you in April 2015, we identified the significant risks affecting the Authority's 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Significant audit risk	Issue	Findings
	<p>LAAP Bulletin 101 <i>Accounting for School Assets used by Local Authority Maintained Schools</i> was issued in December 2014 to assist practitioners with the application of the Code to school assets. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools.</p> <p>Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could incorrectly omit school assets from, or incorrectly include school assets in, their balance sheet.</p> <p>Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.</p>	<p>We confirmed that letters had been sent by the Council to VA/VC schools to confirm the position. Responses were not received from all schools, but we have been able to reach a final conclusion based on information available locally at the authority and information received from similarly constituted schools. The Authority should continue to push for responses from all schools. We obtained and reviewed title deeds and plans where available, and used them to assess whether the Local Authority or another body (such as the Church Diocese) owned the school.</p> <p>We identified a number of schools which appeared to be registered to West Berkshire Council, but which the Solicitors for two Dioceses (Oxford and Portsmouth) note should be owned by them. The Council agrees with the assessment of the two Dioceses and is making plans for the relevant title transfers. We therefore raise a recommendation that the Council assure itself that all titles are correct and in the right name with the Land Registry. <b>(See Recommendation One).</b></p> <p>We checked what assets remained within the fixed asset register for all VA/VC schools. We paid particular attention to any asset included in the register with a carrying value of over £250k. This identified one asset which we checked to a title plan and deed and related to playing fields, and is correctly included within the Council's balance sheet. The remaining assets were individually below £250k, and the total value of VA/VC school assets included within the Council's accounts did not exceed materiality.</p> <p>Our assessment on whether the school should be on or off balance sheet concurred with the Council's assessment in all cases.</p>


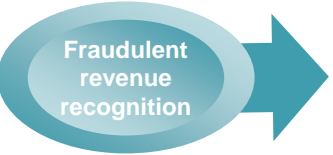
## Section three

### Financial Statements (continued)

### Significant risks (continued)

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
 <p data-bbox="472 494 692 515">Audit areas affected</p> <ul data-bbox="472 539 609 561" style="list-style-type: none"> <li>■ All areas</li> </ul>	<p data-bbox="803 451 2001 561">Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.</p> <p data-bbox="803 579 1970 661">In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p data-bbox="803 679 1674 701">There are no matters arising from this work that we need to bring to your attention.</p>
 <p data-bbox="472 801 692 822">Audit areas affected</p> <ul data-bbox="472 846 571 868" style="list-style-type: none"> <li>■ None</li> </ul>	<p data-bbox="803 743 1991 793">Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p data-bbox="803 812 1939 862">In our <i>External Audit Plan 2014/15</i> we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p data-bbox="803 881 1960 902">This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>

In our *External Audit Plan 2014/15*, presented to you in April 2015, we identified three areas of other audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each such area of audit focus.

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Area of other audit focus	Issue	Findings
	Cash has a pervasive impact on the financial statements and provides comfort over other areas of the financial statements.	We have sought external bank confirmations and reviewed the controls over bank reconciliations. There are no material matters to report.
	Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.	<p>We have checked whether the pensions costs and liabilities recognised in the accounts were accurately drawn from the report from the actuary.</p> <p>We have reviewed the accounting treatment for associated balances and transactions in order to confirm that it was in line with the requirements of the CIPFA code.</p> <p>We have reported an audit difference - Actuarial remeasurements that should be reflected as a direct balance sheet posting were included within deficit on provision of services and reversed out through the movement in reserves statement in error.</p>
	The Authority has a significant asset base. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty.	<p>The Authority has undertaken a valuation exercise using the external valuation firm, Wilkes Head and Eve, which has involved the valuation of the Authority's operational and investment properties.</p> <p>We have reviewed the accounting treatment following the revaluation and have noted some presentational issues which are being amended by the Council in the final version of accounts, but which do not affect the CIES or the Balance Sheet.</p>



# Financial Statements (continued) Accounts production and audit process

The Authority has an established accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was good.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard.  We consider that accounting practices are appropriate
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts on 1 June 2015. We received the completed Whole of Government Accounts (WGA) return on the 10 July 2015.  There was one material misstatement which the Council have corrected relating to the presentation of pensions within the CIES.  The Authority have made a small number of presentational changes to the accounts presented for audit.
<b>Quality of supporting working papers</b>	The quality of working papers provided met the standards required.
<b>Response to audit queries</b>	Officers resolved all audit queries in a timely manner.

### Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14*.

We raised one medium priority recommendation around a review of governance procedures and one low priority recommendation around cut off procedures.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of West Berkshire Council for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and West Berkshire Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Finance for presentation to the Governance and Ethics Committee. We require a signed copy of your management representations before we issue our audit opinion.

We are requesting specific representations on:

- the ownership and accounting treatment of the VA/VC schools; and

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or

subject to correspondence with management;

- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

**Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

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### Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority’s financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

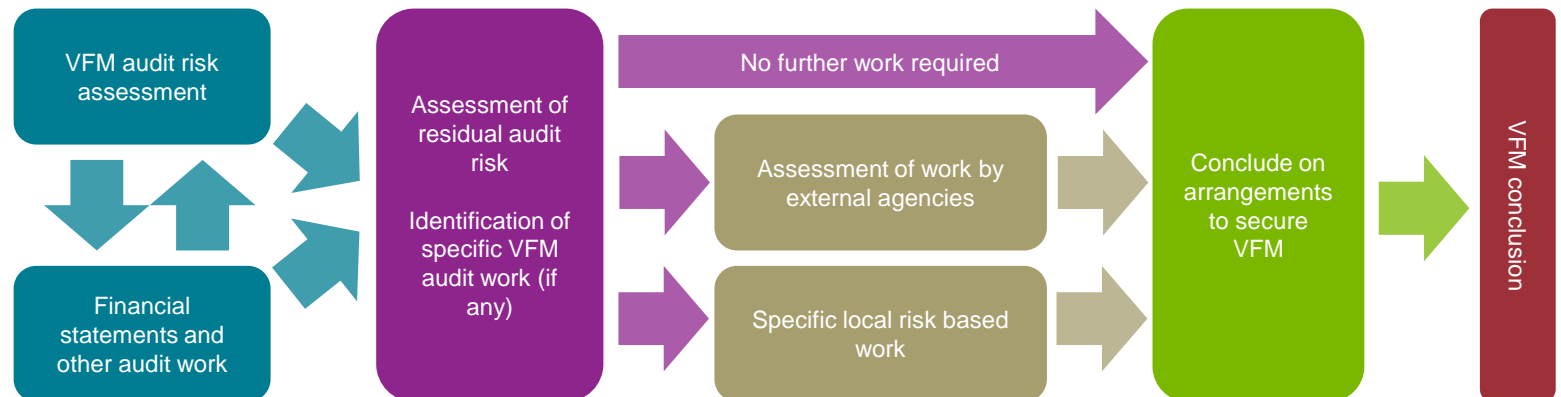
The key elements of the VFM audit approach are summarised in the diagram below.

### Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Ofsted inspected the Authority’s Children’s Service during 2014/15,



and concluded that the Service was inadequate. We have considered this conclusion, and whether it has an impact on our ability to give an unqualified VFM conclusion.

A key driver behind the ‘inadequate’ rating is the high number of temporary staff within Children’s Services, which is expensive and impacts upon the quality of care individual children receive. This is not an issue which is unique to the Authority, however, there is an action plan in place to address the issue, and progress is being monitored.

As the issue applies to a single area in the Council, there is a monitored action plan, and there is a known impact on costs, we have concluded that we will not modify our VFM opinion for 2014/15. We will expect to see action during 2015/16.

### Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
<b>Securing financial resilience</b>	✓
<b>Securing economy, efficiency and effectiveness</b>	✓

## Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<p><b>1</b> <b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p><b>2</b> <b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p><b>3</b> <b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>2</b>	<p><b>Titles of assets</b></p> <p>As part of our work on VA/VC schools we noted a number of assets where the legal title was in the Council's name, and a Diocese has challenged the Council's legal title and requested that the assets transfer to them. These are historical matters and the Council accepts that transfer should have been made by the Council in the past but had not been processed.</p> <p><b>Recommendation</b></p> <p>A review should take place of the legal titles held to all school assets to ensure that the Council only holds titles where it has the right to do so.</p>	<p>Agreed</p> <p>Responsible Officer: Lesley Flannigan (Finance Manager, Financial Reporting)</p> <p>Due Date: March 2017</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	2	<p><b>Consideration of VFM as part of procurement</b></p> <p>As part of our work on the Value for Money (VFM) conclusion, we completed additional testing over the procurement of contracts. We identified two care suppliers with significant spend which had not been procured as one contract, but smaller 'spot' contracts.</p> <p>Whilst we recognize that care contracts present difficulties with procurement due to the fact that the Council has a duty of care to residents to provide continuity of care it is important to carry out a regular exercise to ensure that the rates offer VFM.</p> <p>We identified one IT contract for maintenance of a system, where no formal procurement had taken place and the contract was awarded to the installers of the system although there was no formal requirement for this.</p> <p><b>Recommendation</b></p> <p>A regular review of rates charged by each of the care providers should be completed to ensure that they are in line with the Council's expectation of what a reasonable charge would be. This should be completed by the Procurement Board. The Council should also have a broader look at the options for commissioning care.</p> <p>The Council should comply with internal procurement rules for all contracts, and evidence should be sought that preferred suppliers offer VFM.</p>	<p>Agreed</p> <p>Responsible Officer: Procurement Board</p> <p>Due Date: March 2016</p>
3	3	<p><b>School bank reconciliations</b></p> <p>The School Finance Team had requested that all schools complete bank reconciliations at the year end. Of the 15 schools sampled, 11 did not complete the reconciliations correctly.</p> <p><b>Recommendation</b></p> <p>The Council should remind schools of the importance of completing the bank reconciliations correctly. Training should be given to schools if they require it to ensure that these reconciliations are completed correctly and promptly following the year end.</p>	<p>Agreed</p> <p>Responsible Officer: Claire White (School Finance Manager)</p> <p>Due Date: March 2016</p>



This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all audit differences over £250k.

It is our understanding that all of these will be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Governance and Ethics Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Corrected audit differences

The following table sets out the significant audit differences identified by our audit of West Berkshire Council's financial statements for the year ended 31 March 2015.

No.	CIES	MIRS	Impact			Basis of audit difference
			Assets	Liabilities	Reserves	
1	CR Financing and Investment Income and Expenditure £54,236k	DR Adjustment Between Accounting and Funding Basis £54,236k				Actuarial remeasurements which should be reflected as a direct balance sheet posting were included within deficit on provision of services and reversed out through the movement in reserves statement in error.
2	DR Other Comprehensive Income and Expenditure £54,236k	CR Movement in Reserves £54,236k				
Total	<b>Net nil</b>	<b>Net nil</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

### Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Governance and Ethics Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

### General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

#### **Auditor declaration**

In relation to the audit of the financial statements of West Berkshire Council for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and West Berkshire Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We have included within our consideration the payment of non domestic rates at our offices in Theale, which we do not consider to be material to either the council or KPMG.

We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

For 2014/15 our materiality is £6.5 million for the Authority's accounts.

We have reported all audit differences over £250,000 for the Authority's accounts to the Governance and Ethics Committee.

### Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2014/15, presented to you in April, 2015

Materiality for the Authority's accounts was set at £6.5m which equates to around two percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Governance and Ethics Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Ethics Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements

other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £250,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Ethics Committee to assist it in fulfilling its governance responsibilities.

## Appendix 5: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

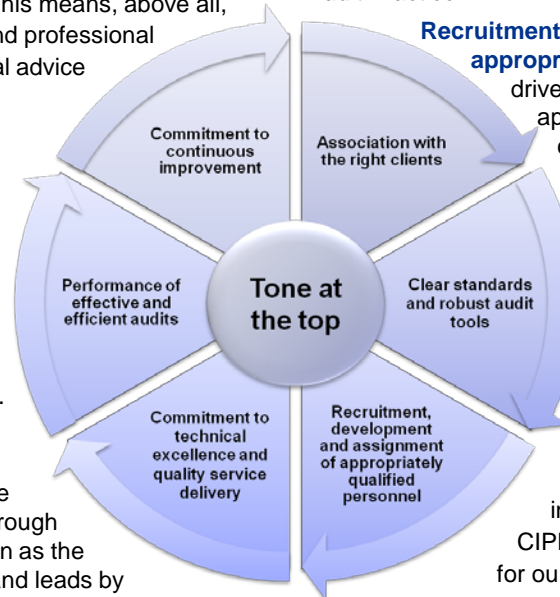
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Ian Pennington as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



**Recruitment, development and assignment of appropriately qualified personnel:** One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding

the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

### **Commitment to technical excellence and quality service delivery:**

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and Manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

### **Our quality review results**

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (<http://www.psa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/>).

The latest Annual Regulatory Compliance and Quality Report issued June 2015 showed that we are meeting the overall audit quality and regulatory compliance requirements.



*cutting through complexity™*

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