External Audit Report 2015/16

West Berkshire Council

—

25 August 2016

Contents

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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.

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Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 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 2015/16 financial statements; and
- The work to support our 2015/16 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 2015/16*, presented to you in April 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July and August 2016.

It also includes any findings in respect of our control evaluation which we have identified.

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 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

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 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

We have not made any recommendations in relation to this year's audit. We have reviewed your progress in implementing prior recommendations.

Acknowledgements

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

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has not identified any audit adjustments. A number of minor amendments focused on presentational improvements have been made to the draft financial statements, and you have included additional commentary in the Narrative Statement.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. We identified no significant risks specific to the Authority during 2015/16 with respect to the financial statements. We did identify two areas of audit focus: — Assuring the fair value of Property Plant and Equipment (PPE); and — Pension Costs and Liabilities. We have worked with officers throughout the year to discuss these areas of audit focus and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.
Accounts production and audit process	We received complete draft accounts by 3 June 2016, well in advance of the DCLG deadline. This is part of a planned process of accelerating the year end in order to meet the 31 July deadline for audited accounts that will apply from 2017/18. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The quality of the accounts and the supporting working papers has been maintained. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has not yet fully implemented the recommendations in our equivalent report from last year, as one of the recommendations is not yet due. As in previous years, we will debrief with the accounts team to share views on the shared accounts and audit process. This will lead to further efficiencies in the 2016/17 year end. In particularly we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2015/16 issued in April 2016. — Financial Resilience; and — Better Care Fund/Care Act Eligibility. We also included progress towards implementing the Ofsted action plan as an area of audit focus. We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. The main issues facing the Authority are to identify sufficient savings and efficiencies (£22 million as reported in the Medium Term Financial Strategy) and to set and deliver a balanced budget for 2017/18 in the face of pressures on its income, increased demand for its services and a relatively low general fund balance. There are no other matters of any significance arising as result of our audit work in these VFM risk areas. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.
Completion	At the date of this report our audit of the financial statements is substantially complete, subject to the following areas: — Whole of Government Accounts testing (return received from Council on 9 August in advance of DCLG deadline; our work is planned for week commencing 29 August); and — Normal completion and review procedures, including receipt of your representation letter (see below). You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 19 August 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are not asking management to provide any specific representations. 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.

Section three: Financial Statements

Proposed opinion and audit differences

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

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 5 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you.

We also report any material misstatements that 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 million. Audit differences below £300k are not considered significant.

We did not identify any material misstatements.

We identified a small 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 2015/16 ('the Code'). The Authority has addressed 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.

Significant audit risks

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 2015/16*, presented to you in April 2016, 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.

We did not identify any other significant audit risks.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 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.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because 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.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

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.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus

In our External Audit Plan 2015/16, we identified two areas of 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 of such areas of audit focus.

Fair value of PPE

— Risk

In 2014/15 the Council reported Property, Plant and Equipment of £413 million. Local authorities exercise judgement in determining the fair value of the different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be an area of audit focus.

— Findings

In accordance with its accounting policy, the Authority has undertaken a valuation exercise using the external valuation firm, Wilkes Head and Eve, which has involved the valuation of a proportion of the Authority's operational properties (around 20%) and all investment properties. We checked the approach and professional competence and independence of the valuers. We reviewed the accounting treatment following the revaluation and are satisfied that the valuations have been reflected appropriately in the financial statements. There are no matters arising from our work that we need to report to you.

Pension costs and liabilities

— Risk

In 2014/15 the Council reported Pension Assets of £218 million and Pension Liabilities of £468 million. Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a complex accounting area. Given these factors and the materiality in values we consider this to be an area of audit focus.

— Findings

We reviewed the information supplied to the actuary for reasonableness compared with the Authority's records. We also checked whether the pensions costs and liabilities recognised in the accounts were accurately drawn from the report from the actuary. We compared key actuarial assumptions with KPMG's actuarial benchmarks and with the review of all actuarial assumptions commissioned by the National Audit Office. We 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. There are no matters arising from our work that we need to report to you.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Accruals / Grants with conditions	3	3	£18.0 million *(PY: £21.6 million)*	We consider the related disclosures to be proportionate. The main accruals are lower than the prior year but they are in line with our expectations.
Debtors provisioning	3	3	£2.9 million *(PY: £6.3 million)*	The decrease in provision is mainly due to the Authority's share of successful business rate appeals that were determined by the Valuation Office Agency in 2015/16. We consider the provision disclosures to be appropriate.
Property, Plant and Equipment (valuations / asset lives)	3	3	£428.5 million *(PY: £413.3 million)*	The Authority uses external professional valuers to assist in determining asset values and asset lives. The Authority follows the technical advice received when compiling its asset register and financial statements.
Pensions	3	3	£239.9 million *(PY: £250.1 million)*	The Authority uses the assumptions considered most appropriate to its circumstances as recommended by the external actuary, Barnett Waddingham LLP.
Reserves	4	5	£6.4 million *(PY: £8.0 million)*	The balance on General Fund reserves has reduced compared with 31 March 2015. The Head of Finance's recommended minimum level of reserves is £6 million. We also noted that the Council has total earmarked reserves of £12 million, of which £4.5 million is schools' balances and £5.2 million are described as specific earmarked reserves. **See page 19 for further comments.**

Accounts production and audit process

The Authority has maintained the quality of the accounts and supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented one of the three recommendations in our ISA 260 Report 2014/15: one is not due; and for the other the information was not available to the Authority.

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
Accounting practices and financial reporting	The Authority has maintained its good financial reporting processes. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 3 June 2016. We received the Whole of Government Accounts return on 9 August 2016. The Authority made a small number of presentational amendments to the accounts presented for audit.
Quality of supporting working papers	The quality of working papers provided met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved our audit queries in a reasonable time.

Prior year recommendations

We have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

The Authority has implemented two of the three recommendations in our ISA 260 Report 2014/15, with the remaining recommendation not yet due.

Appendix one provides further details.

Our ISA 260 Report 2014/15 also referred to the (then) recent inspection by Ofsted. We considered the outcome of the inspection and concluded that because the issue was in a specific area and there was a monitored action plan in place, we did not need to modify our VFM opinion. We did however note that we expected to see progress on the action plan during 2015/16. We have been informed that the Authority's initial action plan has now been completed and a further action plan to move the Authority's rating to 'good' in time for the next Ofsted inspection is now in place and being implemented.

Completion

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 2016, 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 four 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.

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.

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority 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 follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

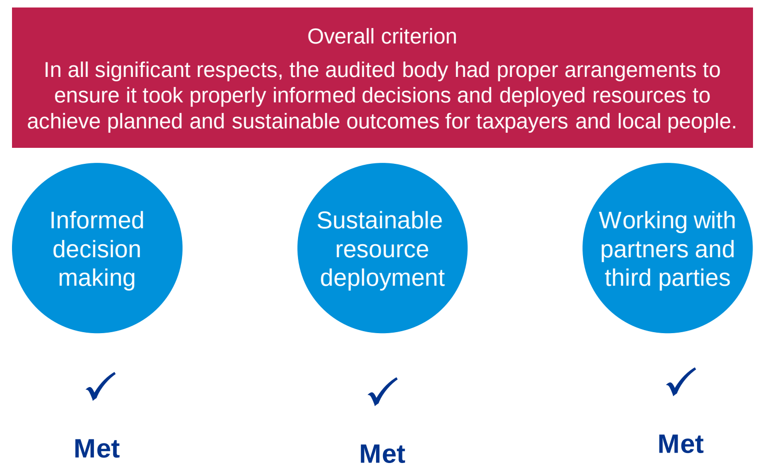
This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

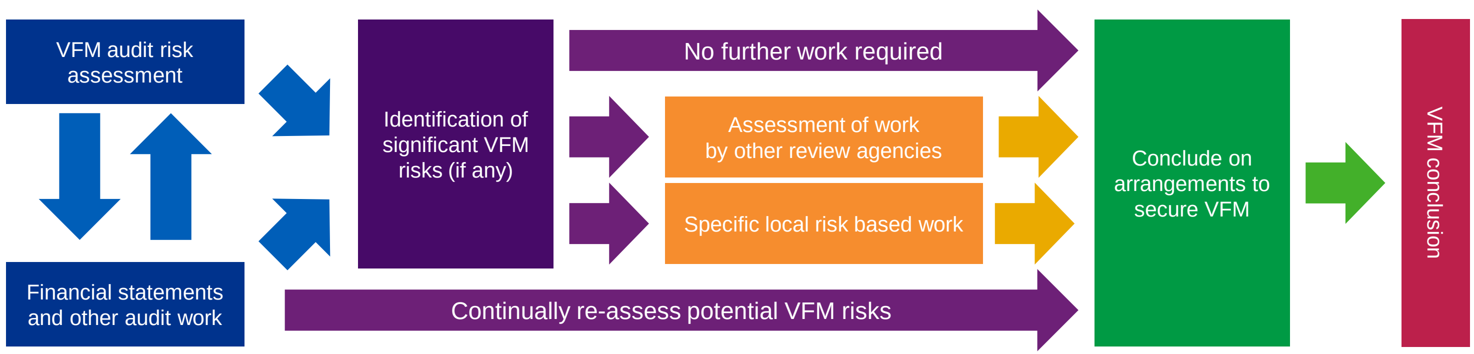
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.





Specific VFM Risks

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

— Assessed the Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and

— Completed specific local risk based work.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Financial Resilience	Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government whilst having to maintain a statutory and quality level of services to local residents. This is relevant to the informed decision making and sustainable resource deployment sub-criterion of the VFM conclusion.	In view of the financial challenges facing the Authority we have set out a detailed commentary of the position later in this section. In summary, although the Council's financial position remains challenging, there is a balanced budget for 2016/17 and plans are being made to deliver the savings identified as required within the Medium Term Financial Strategy. Given the Council's track record and that there is time (albeit limited) to develop savings plans for 2017/18 we do not consider that there is any adverse impact on the VFM conclusion that we need to identify in the auditor's report for year ended 31 March 2016. **Specific risk based work required: Yes – page 19**

Specific VFM Risks (cont.)

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Better Care Fund/Care Act eligibility	The Better Care Fund (BCF) was set up under the Care Act 2014. The aim is to encourage joint work across health and adult social care to ensure local people receive better care. Joint arrangements have been established with Newbury & District and North & West Reading Clinical Commissioning Groups (CCGs) to administer the local BCF. The Care Act also requires new national eligibility criteria which has expanded the number of clients that the Council has to support and the scope of the packages of care. The Council has been challenging this element of the Care Act through the courts and the final outcome is awaited. As the arrangements are new, crossing the health and social care boundary with organisations who have different legal structures there is a risk that the governance and accounting arrangements may not be well developed to manage this partnership arrangement appropriately. This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.	There are no reported issues arising from the 2015/16 BCF agreement and out-turn. The BCF agreement for 2016/17 has a budget of £10.6 million (an 11.9% increase compared with 2015/16). Although the majority of the funding comes from the CCGs, with £1.9 million from the Authority, the Authority is responsible for spending around half of the combined money. There are detailed arrangements and targets in place on a scheme by scheme basis. The CCGs and the Authority have agreed a BCF plan that meets the national conditions and improves health and care services for local residents. The agreement also sets out the risks and how issues arising will be dealt with. In terms of the impact of the Care Act and the change in eligibility criteria and new duties such as prevention, the Authority's strategy is to review and revise its approach to the delivery of services. The Authority has seen an increase in the number of people approaching it in need of help and an increase in prevention work it has been able to support many without the need for a long term service delivery impact. The change in eligibility framework from the Care Act also created a need for all long term clients to receive an annual review. The Authority's performance 95% for 2015/16 is an improvement but due to changes in indicator definition there is no national comparator yet. This level of performance has been achieved with temporary additional capacity which is not the long term solution, and a similar situation caused criticism in the 2015 Ofsted review. Implementing New Ways of Working has created a Review Team who will focus on planned work. There will also be a new review framework that will allow the Authority to apply the strengths based approach, ensuring regular planned contact. **Specific risk based work required: No**

Financial Resilience considerations

The Authority has faced tough challenges in recent years, including:

- a savings programme of £5.9 million required to set a balanced budget at the start of the 2015-16 financial year. This was against a back drop where over the previous five years the council had already delivered £31million of revenue savings through finding efficiencies, staff reductions and transforming services.
- The key factors driving the challenging financial environment have been continued reductions in funding from Central Government coupled with minimal increases in Council Tax, which for West Berkshire, has seen no increases in four out of the last six years.
- Since the introduction of local business rate retention, growth has stagnated and a number of large appeals have reduced the Authority's income.
- In addition to reduced funding reductions, the Authority has experienced significant demand led pressure in:
  - Adult social care budgets in 2015-16. The eligibility criteria for adults accessing social care services has been reduced from critical to the national substantial criteria as a result of the implementation of The Care Act. The Authority incurred a £3 million shortfall from making the change, but is reviewing and revising its service delivery arrangements to try to meet the increasing demand with less funding.
  - Children's social care (placement support)
  - Education Services (support services for children with disabilities and special educational needs and Home to School Transport).

In light of these challenges, the Authority has continued to show good control of finances and ability to manage within its budgets. The total revenue expenditure in 2015-16 was £125 million with a year end over spend of £115k or 0.09% of net budget with a consequential reduction in the General Fund. The Authority has delivered outturns close to its budget requirement over recent years with underspends in the previous 4 years (as a percentage of net budget these were 0.44% in 2011-12, 0.5% in 2012-13, 0.37% in 2013-14 and 0.03% in 2014-15).

In terms of performance against key accountable measures in 2015/16 the Authority is reporting that the results achieved by the end of the first year of the Authority Strategy 2015-2019 show that progress has been made in all priority areas.

In addition to the above challenges, the Authority is facing a 44% cut in its 2016/17 RSG. This was greater than the 25% reduction envisaged by the Authority. Consequently, there was an urgent second round of consultation in February/ March 2016 about cuts/savings needed. In total the Authority's 2016/17 budget includes a £14 million savings programme (all savings identified and approved); 1.99% increase in Council Tax; and 2% increase in Council Tax ring-fenced for Adult Social Care.

The Council has now revisited its MTFS (in light of the increased/accelerated loss of RSG in particular) and identified that £22.4 million of savings are needed to be identified (in total) for the three financial years 2017-20. It is also important to note that the Council has assumed no Council Tax increases in these projections of savings needed. The Council is now working on building plans to ensure it is able to continue to deliver services within a balanced budget, and with a general fund balance that is relatively low. This clearly represents a significant challenge, particularly in the context of savings already made. Members and officers will need to work closely together to explore options and reach decisions as soon as practicable to give the Authority sufficient time to ensure plans are robust and can be implemented within the necessary time scales.

Appendices

Appendix 1: Follow up of prior year recommendations

Appendix 2: Materiality and reporting of audit differences

Appendix 3: Declaration of independence and objectivity

Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2014/15*.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible & due date	Status as at August 2016
1	2	**Titles of assets** 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. **Recommendation** 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.	Responsible Officer: Lesley Flannigan (Finance Manager, Financial Reporting) Due Date: March 2017	This recommendation is not yet due, but we note that little meaningful progress has been made due to the extensive support needed from legal services.

Materiality and reporting of audit differences

For 2015/16 our materiality is £6 million for the Authority's accounts.

We have reported all audit differences over £300k for the Authority's accounts.

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 2015/16, presented to you in April 2016.

Materiality for the Authority's accounts was set at £6 million which equates to around 1.7 percent of gross expenditure and is below the level of the council's general fund. 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 £300k.

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.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

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

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

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 his. 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.

Declaration of independence and objectivity (cont.)

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.

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.

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 2016, 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.

Audit Independence

Audit Fees

Our scale fee for the audit was £96,653 plus VAT (£128,870 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Governance and Ethics Committee in April 2016. Our scale fee for certification for the Housing Benefits return was £10,560 plus VAT, although this work is currently in progress.

Audit Related Fees

Where we do work on grants and claims that used to be part of the PSAA/Audit Commission regime, these are required to be considered as audit related fees. The level of these fees are subject to similar restrictions (in terms of value) as non-audit services from PSAA's monitoring arrangements. The fees charged in 2015/16 were £3,000 plus VAT for the 2014/15 Teachers' Pensions Return.

Non-audit services

We have not undertaken any non-audit services for the Authority in 2015/16.

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