KPMG

External audit report 2016/17

West Berkshire Council

21 August 2017

Summary for Governance and Ethics Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at West Berkshire Council ('the Authority').

Our findings are summarised on pages 4 – 14.

Our report also includes findings in respect of our control work that we have identified during the course of our audit.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

We have identified one audit adjustment with a total value of £4.6 million. See page 26 for details.

Based on our work, we have raised three recommendations. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter before the end of September.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. 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 value for money opinion.

See further details on page [x].

Acknowledgements

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

We ask the Governance and Ethics Committee to note this report.

Contents

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This report is addressed to West Berkshire Council (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. Public Sector Audit Appointments 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).

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, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@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, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'* published in April 2016).

Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation (Authority and [Pension Fund])	**Why is this a risk?** During the year, the Pension Fund for Berkshire has undergone a triennial valuation with an effective date of 31 March 2016, in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pension assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The pension numbers to be included in the financial statements for 2016/17 are based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited input data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by the Royal Borough of Windsor and Maidenhead, who administer the Pension Fund. **Our work to address this risk** We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note.. We found that there was no management review of actuarial assumptions as simple reliance was placed on the experts. There is a risk that without challenge from the Authority, the actuary could use inappropriate assumptions to calculate the pension liability, thus potentially resulting in an incorrect liability being recognised. We have confirmed the expertise of the actuary and assessed the reasonableness of the assumptions used through review of national benchmarking and liaison with KPMG's experts. We have also substantively agreed the total figures submitted to the actuary to the council's general ledger with no issues to note. We have engaged with your Pension Fund auditors to gain assurance over the pension figures.

Considerations required by professional standards

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 2016/17* 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.

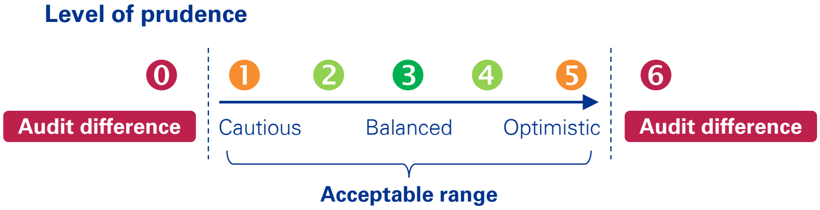
Other areas of audit focus

We identified two areas of audit focus. These are not considered as significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Background** CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code): — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the CIES and the way that local authorities are funded and prepare their budget. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards. **What we have done** For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority's general ledger and found no issues to note.
2. Assuring the fair value of PPE	**Background** In 2015/16 the Council reported PPE of £428 million. Local authorities exercise judgement in determining the fair value of the different classes of assets held. 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. **What we have done** We have reviewed the approach to valuation, the qualifications and reports by the Council's external valuers and the judgements made by the Council in response to the information received (e.g. how the council considers changes in value between formal valuations). We identified an error in the valuation where assets of £4.6m not owned by the council were incorrectly included in the valuation figures. We also identified that the council do not commission the valuer to assess formally the remaining useful lives of the assets. We have raised three recommendations in this area (see page 23).

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Provisions	3	3	Provisions have moved from £350k to £153k therefore they have not materially changed. We consider the provision disclosures to be proportionate.
Accruals	3	3	The main accruals are broadly in line with the prior period (£18.15 million against £18 million). Given the nature of council activities this is in line with what we would consider to be proportionate.
PPE: Asset lives	2	3	On review we found that asset lives were based on historic assessments by the in house team. These were found to be more cautious than the generic value applied by the valuer (default of 60 years for all buildings). We have recorded this as more cautious, but we expect the Authority to carry out additional work in 2017/18.
Pensions	3	3	The Authority uses the assumptions considered most appropriate to its circumstances as recommended by the external actuary, Barnett Waddingham LLP. We have checked these assumptions against the view of KPMG's actuaries and concluded they are broadly consistent.
Reserves	5	5	The balance on General Fund reserves has stayed stable at £6.3 million since 31 March 2016. This is close to the minimum recommended by the Head of Finance and Property.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Governance and Ethics Committee on 21 August 2017.

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 4 for more information on materiality) level for this year's audit was set at £5 million. Audit differences below £0.25m are not considered significant.

Our audit identified a total of one significant audit difference, which we set out in Appendix 3. It is our understanding that this will be adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2017.

The is no net impact on the General Fund as a result of the audit adjustments. This is because the adjustment related to investment property valuations affects the deficit and the accounting adjustments equally.

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 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Movements on the general fund 2016/17

£m	Pre-audit	Post-audit	Ref[1]
Deficit on the provision of services	20.9	25.4	1
Adjustments between accounting basis and funding basis under Regulations	(19)	(23.5)	1
Transfers from earmarked reserves	-	-	
[Increase/Decrease] in General Fund	**(1.9)**	**(1.9)**	

Balance sheet as at 31 March 2017

£m	Pre-audit	Post-audit	Ref[1]
Property, plant and equipment	432.1	427.5	1
Other long term assets	0.1	0.1	
Current assets	35.3	35.3	
Current liabilities	(51.9)	(51.9)	
Long term liabilities	(459)	(459)	
Net worth	**(43.5)**	**(48.1)**	
General Fund	(6.3)	(6.3)	
Other usable reserves	(42.4)	(42.4)	
Unusable reserves	92.2	96.8	1
Total reserves	**43.5**	**48.1**	

[1] See referenced adjustments in Appendix 3.

Annual governance statement

We have reviewed the Authority's 2016/17 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 number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on 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. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Introduction of KPMG Central

We introduced KPMG Central this year, which is a cloud-based document storage system to facilitate the secure transfer of large amounts of data between the Authority and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Authority's Finance Team to efficiently share requested information. Feedback from the finance team has been positive and allows us to keep track of uploaded documents.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

The Authority has strengthened its financial reporting by finalising the accounts in a shorter timescale. This puts the Authority in a good position to meet the new 2017/18 deadline.

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of draft accounts on 30 May 2017. There were some presentational matters arising in that draft, and it would have benefited from a review within the Authority from somebody independent of the accounts preparation process.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in May 2017 to agree the documentation we needed to see. This helps the Authority to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Below we have highlighted exceptions in relation to controls:

NEED TO ADD re Recommendation 3

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 2017, 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 5 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 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 or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

Section two

Value for money

Our 2016/17 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 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.

VFM conclusion

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.'

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.

1 Identification of significant VFM risks (if any)

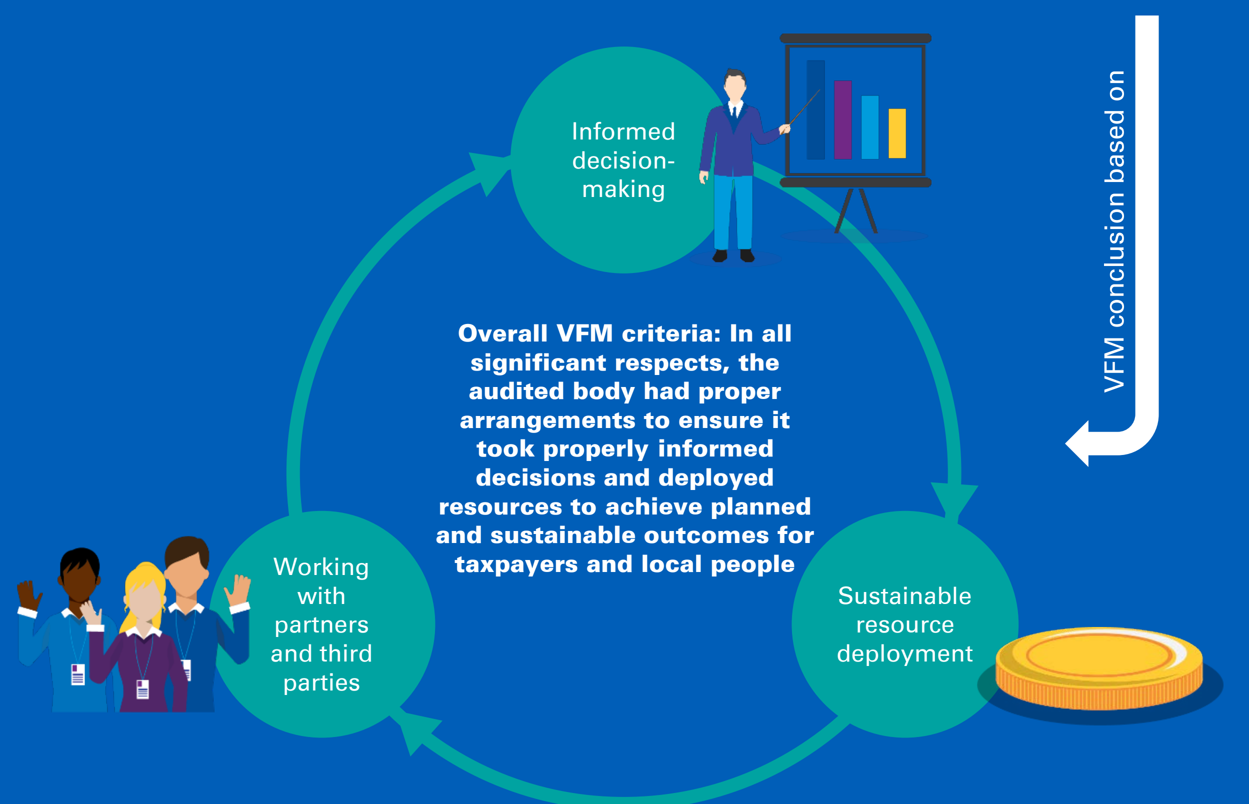
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary

VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
Financial resilience	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, 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.

Further details on the work done and our assessment are provided on the following pages.

Property Investment Strategy

As part of the Corporate Programme, the Authority is planning to invest in commercial and residential property to generate new income streams. This is a route being taken by a significant number of local authorities.

The Authority is proposing to acquire up to £50 million of commercial investment properties (by the end of 2018) to provide a balanced investment portfolio to give the Authority a long term revenue stream.

The Authority has also approved specific governance arrangements for this strategy – mainly through the Property Investment Board plus additional Executive Committee approval needed in certain circumstances.

The Authority will be supported by an external property consultant to oversee acquisition and estate management.

The portfolio will be reviewed annually to consider performance of each asset, risk profile movements, market review, review of assessment criteria and review of holding period for the properties.

We have supplied the Head of Finance and Property with some general comments as to what steps the Authority needs to consider when going through key decision making steps, and specific comments about the risks or making investments outside the Authority's geographical area.

We will monitor the Authority's progress in implementing its Property Investment Strategy as part of our 2017/18 audit.

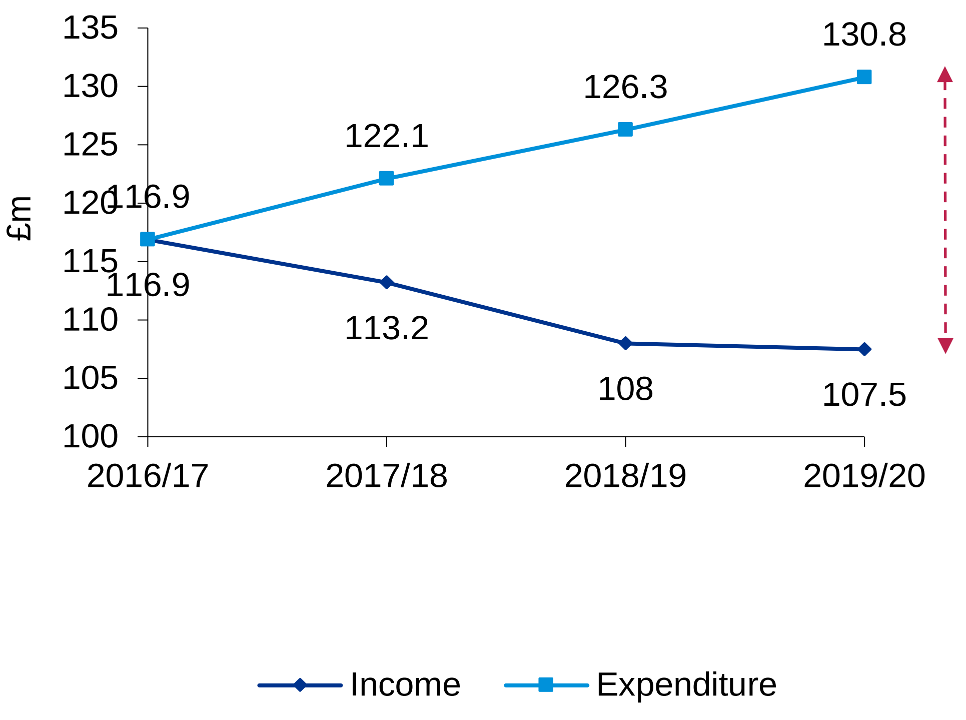
Significant VFM risks

We have identified one significant VFM risk, as communicated to you in our *2016/17 External Audit Plan*. We are satisfied that internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Significant VFM risks	Work performed
1. Financial resilience in the local and national economy	**Why is this a risk?** There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will also impact on the Authority's finances. In February 2017, the Authority published its latest Medium Term Financial Strategy (MTFS) 2017/18 –2019/20 that sets out a balanced budget for 2017/18, but also noted significant reductions in future funding that needed to be addressed. The Authority has implemented a Corporate Programme to ensure it is able to bridge the forecast gap in the MTFS. The Annual Governance Statement also refers to a review of the Authority's governance arrangements by the Finance and Governance Group during 2017/18 to ensure the arrangements are fit for purpose in the increasingly complex and challenging environment that the Authority is working within. **Summary of our work** Like most local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. The Authority has faced tough challenges in recent years, including a savings programme of £13.9 million required to set a balanced budget at the start of the 2016/17 financial year. This is also against a back drop where over the previous six years, the Authority has had to find over £37 million of revenue savings, which has been achieved 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 low increases in Council Tax, although the Authority needed to increase Council Tax by the maximum of 3.99% (1.99% increase in Council Tax; and 2% increase in Council Tax ring-fenced for Adult Social Care) in 2016/17. In addition to the funding issues, the Authority has experienced significant demand led pressure, estimated at £3.9 million for 2016/17, including: placements pressures for children's services; delivering the Ofsted improvement plan (following the 2015 inspection); transition of learning disability clients from children to adult placements; costs associated with Deprivation of Liberty Safeguarding; contract inflation for waste services; childcare lawyers joint arrangement; disability and residential care packages; and Special Educational Needs home to school transport. In light of the challenges, the Authority has continued to show good control of finances and an ability to manage within its budgets. The budgeted net revenue expenditure in 2016/17 was £116.8 million with a provisional revenue outturn over spend of £7,000 or 0.006% of net budget. The Authority has delivered outturns close to its budget requirement over recent years with underspends in 4 of the previous 5 years (as a percentage of net budget these ranged from 0.03% to 0.50%; and the overspend in 2015/16 was 0.10%).

Significant VFM risks	Work performed
	(continued) The 2017/18 budget sets out details of movements and expectations for income and budget requirements for services, capital financing etc. In particular there are directorate pressures and service growth of £4.2 million; a fall of £5.8 million in the Authority's Revenue Support Grant; and agreement to increase Council Tax by the maximum allowed (4.99% increasing income by £6.1 million). In total this left a 'gap' of £4.7 million, which the Authority needed to fill by generating savings and/or additional income, in order to deliver a balanced budget. The budget paper includes the details of the savings agreed and approved to close the £4.7 million 'gap'. In addition the Authority consulted the local population regarding the 'frontline' proposed savings. Given that the Authority has planned and delivered savings in excess of £5 million for each of the last 6 years, we have a degree of confidence that the Authority will continue to deliver in 2017/18. Using this increased financial stability (from accepting central Government's 4 year settlement) and the position from 2016/17 and the 2017/18 budget, the Authority's MTFS projects forward its anticipated funds available and budget requirement for 2018/19 and 2019/20. The MTFS identifies that £14.2 million of further savings needed to be identified (in total) for the two financial years 2018-20. Whilst this represents a significant challenge, when put in the context of savings already made, the Authority is now working on building plans to ensure it is able to continue to deliver services within a balanced budget. It is also important to note that the Authority's MTFS has assumed no Council Tax increases (in terms of Band charges) and no use of the potential increase for Adult Social Care services (2% in 2018/19 and 1% in 2019/20). Taken together the Authority estimates that, if implemented, this could increase its Council Tax income by £6 million, reducing the savings target to £8.2 million. The key financial strategy to close the funding gap over the medium term will focus on innovation around service transformation and income generation. To drive this change, the Authority has created a Corporate Programme containing a number of projects to identify opportunities to transform services and implement changes that will deliver new income streams. Alongside this, Directors are looking at a range of solutions which will be presented to a Budget Board every six weeks. The areas of focus include digitisation, benchmarking, workforce redesign, demand management, exploring a range of alternative models for delivering services and working with partners and communities to deliver services in a different way. The Authority is investing in commercial and residential property to generate new income streams (see earlier comments re property investment strategy) and to meet its statutory housing duties in a more cost effective way. Consequently, although the Authority's financial position remains challenging, there is a balanced budget for 2017/18 and plans are being made to deal with the gap identified for 2018/19 and 2019/20. The Authority's budget also includes capital investment to ensure that core assets are maintained and protected. The Council has reviewed its reserves to ensure they are sufficient for the Authority to deliver services and take appropriate risks in amending service delivery models without impacting on the financial viability of the organisation. Given the Authority's track record and that there is time (albeit limited) to develop savings plans for 2018/20 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 2017.

Significant VFM risks	Work performed



Without any action the annual budget gap would be £23.3m by 2019/20 (130.8 – 107.5). However, as the Authority have identified the steps needed to close the £8.9m gap in 2017/18 (£122.1m - £113.2m), then this reduces the 'gap' remaining to £14.4m (i.e £23.3m – 8.9m with some rounding). This will require continued efforts from officers and members, because the Authority has a good track record of finding savings, and so the next batch of savings is often more difficult to find and implement.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority: 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.

Medium priority: 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.

Low priority: Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary

Priority	Total raised for 2016/17
High	**0**
Medium	**3**
Low	**0**
Total	**3**

Priority	Finding	Management Response
Medium priority	**1. Review of Asset Valuation Report** Our audit identified that the Asset Valuation Report contained assets (and corresponding upward valuations) that were not owned by the Council. This resulted in the incorrect recognition of a gain on valuation and the Property figure in the draft accounts was too high. As a result we have raised an adjustment for £4.6m (see page 26). This adjustment has no net impact on the general fund as it is mitigated through the capital accounts. Posting the correction required the updating of multiple notes to the accounts. **Recommendation** We recommend that the Head of Estates performs a review of the output of the report in addition to the capital accountant. (and see 2.)	**Management Response** [Accepted/Not accepted] [TBC] **Owner** Head of Finance **Deadline** [TBC]
Medium priority	**2. Valuation Instructions** We also found that the valuer recorded a standard useful life to all properties. The Council did not apply this useful life as it was not considered to be sufficiently accurate. The instructions to the valuer did not ask for specific useful lives of assets The instructions to the valuer need to be clearer, and the output needs to be reviewed more critically within the Council.. A proper third party assessment of useful lives can be more considered more reliable and result in a more accurate figure recorded for depreciation. It could also highlight issues with properties that the Council could manage by planned maintenance or other interventions. These findings have no impact on the current year as the Estates team have signed off on the in-house useful lives and we have concurred with that approach. **Recommendation** We recommend that the Council review the instructions provided to the valuer to ensure only owned assets are included. In addition we recommend the Council consider the best approach to gaining external assessments of the useful lives of its assets on a regular basis.	**Management Response** [Accepted/Not accepted] [TBC] **Owner** Head of Finance **Deadline** [TBC]

Medium priority

3. Agresso User Accounts

Our review of the leavers from the Agresso system identified 28 former staff with open Agresso accounts despite them leaving the Council in the year.

It is best practice to ensure the accounts of leavers are closed to prevent unauthorised access.

The cases identified were all found to be mitigated, predominantly by the users' main network accounts being closed by IT.

Recommendation

We recommend the introduction of a monthly user account / leaver review and reconciliation to ensure all accounts are closed appropriately.

Management Response

[Accepted/Not accepted]

[TBC]

Owner

Senior Accountant - Systems

Deadline

[TBC]

Audit differences

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.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted 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 2017. We can confirm that as of the latest version of the accounts these have been corrected.

Table 1: Adjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr Gain on Investment Properties [£4,594]	Cr Adjustments required due to statutory accounting policies [£4,594]	Cr Investment Properties [£4,594]		Dr Unusable Reserves [£4,594]	The investment property revaluation balance contained upwards revaluations related to assets contained in the valuation report but not owned by the Council.
	Dr [£4,594]	**Cr [£4,594]**	**Cr [£4,594]**	**-**	**Dr [£4,594]**	**Total impact of adjustments**

Unadjusted audit differences

We are pleased to report that we did not identify any unadjusted audit differences in our audit of West Berkshire Council's financial statements for the year ended 31 March 2017.

Materiality and reporting of audit differences

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 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £5 million which equates to around 1.42% 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 £0.25 million 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 4

Declaration of independence and objectivity

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.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of West Berkshire Council for the financial year ending 31 March 2017, 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.

Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	**Estimated fee**	**Potential threat to auditor independence and associated safeguards in place**
Review of Teachers' Pensions Return	£3,000	**Self-interest**: The audit fee scale rates were set independently to KPMG by the PSAA. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. **Self-review:** The nature of this work is to review the return provided to the TPS. The figures in the return are not subject to the audit and the review occurs after audit sign off. **Management threat:** not applicable **Familiarity**: This threat is limited given the scale, nature and timing of the work. **Advocacy**: We will not act as advocates for the Authority in any aspect of this work. **Intimidation**: not applicable
Total estimated fees	**£3,000**	
Total estimated fees as a percentage of the external audit fees	**3.1%**	

Appendix 5

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £96,653 plus VAT *(£96,653 in 2015/16)*, which is in line with the prior year. See table below for further detail.

Our work on the certification of Housing Benefits (BEN01) is planned for October 2017. The planned scale fee for this is £[XX,XXX] plus VAT. Planned fees for other grants and claims which do not fall under the PSAA arrangements is £3,000 plus VAT (£3,000 in 2015/16), see further details below.

PSAA fee table		
Component of audit	**2016/17** *(actual fee)* £	**2015/16** *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee set	96,653	96,653
Additional work to conclude our opinions (note 1)	-	-
Subtotal	**96,653**	**96,653**
Housing benefits (BEN01) certification work		
PSAA scale fee set [planned for October 2017]	TBC	10,560
Total fee for the Council set by the PSAA	**TBC**	**107,213**

All fees are quoted exclusive of VAT.