DRAFT 18th July 2018

KPMG

# External Audit Report 2017/18

**West Berkshire Council**

—

30 July 2018

# Content


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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. PSAA 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 PSAA'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 (0207 694 8981, 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 3HZ.

# Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to West Berkshire Council (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority'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.

**Basis of preparation:** We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

**Purpose of this report:** This Report is made to the Authority's Governance and Ethics Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

**Limitations on work performed:** This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

**Status of our audit:** Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Governance and Ethics Committee meeting. The following work is ongoing:

- Financial statements audit:
  - Property, Plant and Equipment – depreciation, Minimum Revenue Provision and Capital Adjustment Account review;
  - Pensions – completion of data work programmes;
  - Testing of debtors, creditors, grant and other income;
  - Review of disclosures (and testing as appropriate) for related parties, primary statements;
- Value for money conclusion: VFM profile explanations; and
- Completion and review steps.

# Summary

## Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved, we expect to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 31 July 2018, following the Governance and Ethics Committee adopting them and receipt of the management representations letter.

We have completed our audit of the financial statements. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings to date are:

- There are no unadjusted audit differences.
- We have agreed an audit adjustment of £4.1m to the Comprehensive Income and Expenditure account to remove transactions relating to the financing of capital. There has been a similar adjustment made to the figures presented for 2016/17. There was small increase in the net assets of the Authority at 31 March 2018 by £144,000; a small increase in the General Fund balance by £77,000, and the capital receipts reserve by £144,000 (there were no changes in net assets, and general fund/usable reserve balances as at 31 March 2017).
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- We are only including routine requests when we ask for management representations.
- We reviewed the narrative report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year.

We are now in the completion stage of the audit and anticipate issuing our completion certificate on 31 July 2018. We also intend to issue our 2017/18 Annual Audit Letter in August 2018.

## Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion for the deadline of 31 July 2018.

# Summary

## 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.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014. Further, there are no other 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 2017/18 financial statements.

We are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2016/17. Our work to date has not identified any new recommendations.

Our work on the certification of Housing Benefits (BEN01) is planned for August and September 2018, to meet the deadline of 30 November 2018.

We undertake other grants and claims work for the Authority.  The status of our grants and claim work is summarised below:

- Teachers’ Pensions Return: we plan to undertake this work in September/October 2018, to meet the deadline of 30 November 2018.

The fee for this work is explained in Appendix 2.

# Financial statements audit

We audit your financial statements by undertaking the following:

| Work Performed | Accounts production stage: Before | During | After |
|---|---|---|---|
| **1. Business understanding:** review your operations | ✓ | ✓ | – |
| **2. Controls:** assess the control framework | ✓ | – | – |
| **3. Prepared by Client Request (PBC):** issue our prepared by client request | ✓ | – | – |
| **4. Accounting standards:** agree the impact of any new accounting standards | ✓ | ✓ | – |
| **5. Accounts production:** review the accounts production process | ✓ | ✓ | ✓ |
| **6. Testing:** test and confirm material or significant balances and disclosures | – | ✓ | ✓ |
| **7. Representations and opinions:** seek and provide representations before issuing our opinions | ✓ | ✓ | ✓ |

We have completed the first six stages and report our key findings below:

| | |
|---|---|
| 1. Business understanding | In our 2017/18 audit plan, we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section. |
| 2. Assessment of the control environment | We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have not made any recommendations in this area. We reviewed work undertaken by your internal auditors, in accordance with ISA 610, and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit. |
| 3. Prepared by client request (PBC) | We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Finance Manager and this was issued as a final document to the finance team. |

# Financial statements audit

| | |
|---|---|
| 4. Accounting standards | We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes related to:<br>• Amendments to Business Improvement District Schemes, Business Rate Supplements, and Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date – not considered to have a significant impact for the Authority;<br>• amendment to Narrative Reporting to introduce key reporting principles for the Narrative Report – clarifying what should be included, and what is not considered significant for the Authority; and<br>• updates to Presentation of Financial Statements to clarify the reporting requirements for accounting policies and going concern reporting – increases the visibility of going concern for example in the responsibilities statement. |
| 5. Accounts Production | We received complete draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.<br>The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to year-end to proactively address issues as they emerged. However, due to ill-health the Authority finance team was weakened in the lead up to the shorter closedown process. In spite of this, the Authority was still able to produce a reasonable set of accounts to meet the new shorter deadline. We consider that the overall process for the preparation of your financial statements is adequate. We consider the Authority's accounting practices to be appropriate.<br>We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe. |
| 6. Testing | We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. As summarised on Page 4 and in the 'Faster Close' other area of audit focus box (page 12) we have agreed an audit adjustment of £4.1m to the Comprehensive Income and Expenditure account to remove transactions relating to the financing of capital. Other than this issue, the audit work to date has identified only presentational issues which have been adjusted as they have no material effect on the financial statements. |
| 7. Representations | 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 Head of Finance in July 2018. We draw 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. |

# Financial statements audit

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, opening balances, public interest reporting, questions/objections, 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 2017/18 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over pension liabilities which were identified as a significant risk within our audit plan;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

# Financial statements audit

### Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

| Significant audit risk | Account balances effected | Summary of findings |
|---|---|---|
| Pension liabilities | Pension liability £317.292 million, PY £317.317 million<br><br>Pension reserve £317.292 million, PY £317.317 million | The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of the Berkshire County Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.<br><br>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.<br><br>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.<br><br>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.<br><br>As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of the Authority's actuary, Barnett Waddingham.<br><br>We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges. We also reviewed the methodology applied in the valuation by Barnett Waddingham.<br><br>In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.<br><br>In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and reperformed this allocation.<br><br>Some elements of this work are still to be completed, but as a result of the work completed so far we have no issues arising to bring to your attention relating to the pension assets and liabilities movements and year end balances as disclosed in the financial statements.<br><br>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 14. |

# Financial statements audit

## Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

| Other areas of audit focus | Account balances effected | Summary of findings |
|---|---|---|
| Valuation of land and buildings | Land, £65.5 million, PY £67.8 million<br><br>Buildings, £184.6 million, PY £190.6 million | The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.<br><br>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.<br><br>We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time.<br><br>In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).<br><br>Some elements of this work are still to be completed, but as a result of the work completed so far we have no issues arising to bring to your attention relating to the valuation of land and buildings as disclosed in the financial statements.<br><br>We have set out our view of the assumptions used in relation to asset lives for Property, Plant & Equipment at page 14. |

# Financial statements audit

## Authority other areas of audit focus (continued)

| Other areas of audit focus | Account balances effected | Summary of findings |
|---|---|---|
| Valuation and disclosure of investment assets | Investment properties, £26.0 million, PY £7.4 million | As part of the Corporate Programme, the Authority is investing in commercial and residential property to generate new income streams (a route being taken by a large number of local authorities). The Authority is expecting by 31 March 2018 to have acquired up to £20 million of commercial investment properties as part of its plans to provide a balanced investment portfolio to give the Authority a long term revenue stream.<br><br>The Authority has specific governance arrangements to implement and deliver its strategy and oversee acquisition and estate management – mainly through the Property Investment Board (PIB) with additional support by an external property consultant. The portfolio will be reviewed annually by PIB to consider performance of each asset, risk profile movements, market review, review of assessment criteria and review of holding period for the properties.<br><br>We have reviewed the Authority's decision-making process when purchasing investment properties in 2017/18.<br><br>We have also assessed the valuer's qualifications, objectivity and independence to carry out valuations and review the methodology used (including testing the underlying data and assumptions). We reviewed the associated disclosures in the financial statements.<br><br>The processes in place should help the Authority to secure value for money. However, commercial investment is necessarily a risk (as it is seeking to achieve higher returns) and the Authority should continue to review its strategy, considering the scale of investment, the sectors in which it invests, and the benefits of investing within West Berkshire.<br><br>The portfolio as at 31 March 2018 had all been acquired within the previous six months. As the purchases were recent, the Authority has included the assets in its balance sheet at cost. In future years they would be held at market valuation. We have reviewed the acquisition reports and have identified no issues that would suggest an impairment of value as at 31 March 2018.<br><br>As a result of this work we determined that the Authority has appropriate support for the valuations of its investment properties and that they have been disclosed correctly. |

# Financial statements audit

## Authority other areas of audit focus (continued)

| Other areas of audit focus | Account balances effected | Summary of findings |
|---|---|---|
| Faster close | No specific balances | In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.<br>During 2016/17, the Authority prepared for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by the end of May.<br>In order to meet the revised deadlines, Authorities need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that need to be managed.<br>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.<br>Due to ill health the Authority lost some key finance staff during the lead up to the accounts closedown. In spite of these unfortunate events the Authority still managed to get a good set of accounts ready in time to meet the newly advanced timetable. To date we have only identified one significant adjustment, which related to various disclosures of capital items mainly within the Comprehensive Income and Expenditure Statement. Although the amendments increased income by £4 million, the change to net operating expenditure was only £11,000. There were also only minimal impacts on the Authority's 'net worth' (£144,000 increase); General Fund balance (£77,000 increase); and capital receipts reserve (£144,000 increase).<br>Although the Authority is disappointed that these errors were not identified as part of the closedown process, we consider that in the circumstances when key staff have been missing for significant periods around the closedown process (which was also a month shorter this year), this was a commendable achievement.<br>We received draft financial statements on the statutory deadline of 31 May 2018, which in the circumstances (summarised above) was a commendable achievement by the Authority. In this context the quality of this draft was to a good standard, although we have noted above the capital adjustments needed to the draft accounts. |

# Financial statements audit

| Risks that ISAs require us to assess in all cases | Why | Our findings from the audit |
|---|---|---|
| Fraud risk from revenue recognition | Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.<br><br>In our External Audit Plan 2017/18 we reported that we do not consider this to be a significant risk for Local Authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebutted this risk and have not incorporated specific work into our audit plan in this area over and above our standard fraud procedures. | As we have rebutted this risk we did not incorporate specific work into our audit plan in this area over and above our standard fraud procedures. |
| Fraud risk from management override of controls | Management is typically in a powerful position to perpetrate fraud owing to 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.<br><br>In line with our methodology, we carry 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.<br><br>We have not identified any specific additional risks of management override relating to this audit. | There are no matters arising from this work that we need to bring to your attention. |

# Financial statements audit

## Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements.  We summarise our view below using the following scale:


| Assessment of subjective areas | | | | |
|---|---|---|---|---|
| **Asset / liability class** | **Current year** | **Prior year** | **Balance (£m)** | **KPMG comment** |
| Accruals | TBC | 3 | £XX.X (PY:£XX.X) | TBC |
| PPE: asset lives | 2 | 2 | Buildings, £184.6 (PY:£190.6) | In 2016/17 we identified that asset lives were based on historic assessments by the in-house team. These were more cautious than the generic value applied by the valuer (which was a default of 60 years for all buildings). The Authority has reviewed the asset lives for all of the assets revalued in 2017/18 and also for those assets with significant additions in 2016/17. This has started to address this historic issue, but will take four more years to be addressed in full, due to the cyclical approach to valuations. |
| Pension liability | 3 | 3 | £317.3 (PY:£317.3) | The Authority continues to use Barnett Waddingham LLP to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation.  For example, a 0.1% change in the discount rate would change the net liability by over £10 million. The actual assumptions adopted by the actuary fell within our expected ranges. |
| Reserves | 5 | 5 | £6.1 (PY:£6.3) | The balance on General Fund reserves has stayed relatively stable at £6.1 million since 31 March 2017.  This is close to the minimum recommended by the Head of Finance and Property. |

# Financial statements audit

### Annual Governance Statement and Narrative Report of the Authority

We have reviewed the Authority's Narrative Report and Annual Governance Statement and have confirmed that they are consistent with the financial statements and our understanding of the Authority.

### Queries from local electors

We did not receive any objections from members of the public this year.

### Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as:

— HM Treasury has recently issued its guidance for completing the WGA and issued the consolidation packs that authorities need to complete. The deadline for the audit is 31 August 2018. We aim to complete the work in August 2018.

We have not received any objections to the accounts from local electors, therefore we expect to issue our audit certificate in August 2018 following completion of the WGA work.

### Whole of Government Accounts (WGA)

We have not yet reviewed your WGA consolidation pack and anticipate completing the work required in August 2018.

### Other grants and claims work

We undertake other grants and claims work for the Authority. The status of our grants and claim work is presented below:

- Teachers' Pensions Return: we plan to undertake this work in September/October 2018, to meet the deadline of 30 November 2018.
- Our work on the certification of Housing Benefits (BEN01) is planned for August and September 2018.

### Audit fees

Our fee for the audit was £96,653 excluding VAT (£96,653 excluding VAT in 2016/17). This fee was in line with that highlighted in our audit plan approved by the Governance and Ethics Committee in February 2018.

The planned scale fee for certification of BEN01 is £10,560 excluding VAT (£12,391 excluding VAT in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements (Teacher's Pensions return) is £3,300 excluding VAT (£3,300 excluding VAT in 2016/17).

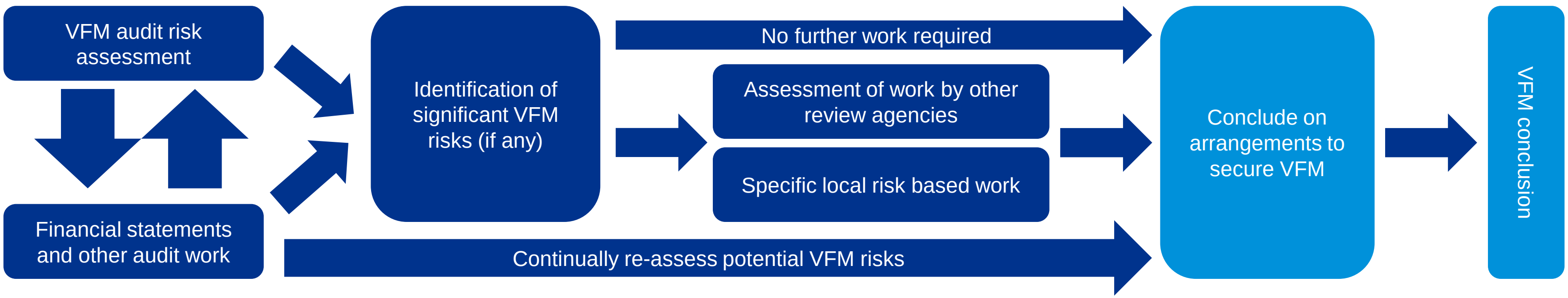
We have not completed any other non-audit work at the Authority in year.

# Value for money

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.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as summarised below:




We identified one significant VFM risk which is reported overleaf.  We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

# Value for money

## Significant risk based VFM audit work

Below we set out the detailed findings of our significant risk-based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

| Significant VFM risk | Why this risk is significant | Our audit response and findings |
|---|---|---|
| Financial Resilience | The Authority's 2017/18 budget included the need to deliver savings/income generation schemes of £4.7 million. The current forecast (September 2017) shows that the Authority will deliver an overspend of approximately £0.6 million but is taking steps to maintain overall financial discipline and finding ways to eliminate (or at least reduce) the forecast revenue overspend against the approved balanced budget.<br><br>The Authority's 2018/19 budget consultation recognised a need for £10 million in further savings or income generation. Further savings/income generation of £5 million will be required in 2019/20 principally to address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience. | The Authority has continued to face reductions in its core grant funding leading to greater reliance on funding from council tax and from local business rate generation. 2017/18 saw a 61% cut in Revenue Support Grant for the Authority from the previous year. The reduction in core grant funding will continue until 2020/21 when it will have reduced to just 1.5% of available funding.<br><br>The Authority has faced significant demand-led pressure on its social care budgets and needed to make additional budget investment in 2017/18 of nearly £4 million. Investment was made in adult social care for the transition of learning disability clients from children to adult placements and for pressures relating to demand, complexity of need and prices. The introduction of an Apprentice Levy has created a new pressure.<br><br>In 2017/18 Council Tax was increased by 1.99% (raising £1.6 million), and by 3% to fund adult social care pressures raising an additional £2.5 million. This left a gap of £4.7 million to be met from savings and income. The 2017/18 savings programme included reductions in highways and drainage maintenance and road safety, restructure of youth support, family resources, help for families and young carers service, increases in highways fees and charges including parking and many others. During the year, progress against savings is monitored and by year-end over 93% (£4,369k) of this target was met with plans to achieve the ongoing target in full from 2018/19.<br><br>Part way through the year the Authority identified several pressures which could have resulted in an overspend of £860,000 without action by the Authority. The final revenue outturn for 2017/18 was an over spend of £276,000 (which represents 0.23% of the net revenue budget), following actions taken by the Authority. This outcome demonstrates the Authority's continued sound financial management and budgetary control arrangements, particularly in the context of having to manage significant pressures during 2017/18 within its "demand led" services.<br><br>The Authority's 2018/19 Revenue Budget, includes a Council Tax increase of 2.99% with a 3% precept ring-fenced for adult social care, each raising an additional £2.7 million income.<br><br>The balanced budget for 2018/19 includes £5.2 million of savings and income generation proposals, including reductions in street cleansing, introducing a charge for garden waste collection, further transformation in the way adult social care is provided, demand and cost management in social care, investment in commercial property to generate new income streams. |

# Value for money

## Significant risk based VFM audit work (continued)

| Significant VFM risk | Our audit response and findings |
|---|---|
| Financial Resilience | The creation of a business rates pilot across Berkshire in 2018/19 includes an estimated additional £35 million of business rates income that will be retained within the county. The Berkshire authorities have committed to set aside 70% of the additional funding to make improvements to transport infrastructure in the Reading – Wokingham and Slough – Heathrow corridors. The works will be taken forward by the Thames Valley Berkshire Local Enterprise Partnership. The remaining 30% of additional funding will be distributed to the individual local authorities in Berkshire, in proportion to their respective contribution to the overall growth. The pilot has been agreed for one year only. The Authority has not included any of the potential income in its base budget.<br><br>The Authority's Medium Term Financial Strategy (MTFS) indicates that it is facing a funding gap of £23 million by 2020/21, before considering Council Tax increases or savings plans. This is based on inflation, salary increases, changes to National Insurance and pension contributions, and service pressures arising from increased demand and new responsibilities, particularly in adult social care. The MTFS also takes account of the forecast levels of funding.<br><br>For 2019/20 and 2020/21, the assumption in the Medium Term Financial Strategy is that Council Tax increases will be at 2% per year, leading to savings and income requirements of £5.2 million and £3.1 million respectively. For 2019/20, £2.8 million has already been identified and in 2020/21, £240k has been identified.<br><br>The key financial strategy to close the funding gap over the medium term will focus on innovation around service transformation, strategic transformation and commercialisation. The Corporate Programme is driving this change and contains a number of projects that aim to support the Authority's financial strategy through identifying opportunities to transform services and through implementing changes that will deliver new income streams. The areas of focus that will contribute to closing the funding gap include: digitisation; continuing to improve systems and processes; demand management on services; commercialisation (investing in commercial property – see page 11 for further comments); reducing waste collection and disposal costs; sharing services; and increased working with partners.<br><br>Consequently, although the Authority's financial position remains challenging, there is a balanced budget for 2018/19 and plans are being made to deal with the gap identified (£5.28 million remains to be found in 2019/20 and 2020/21 from the original £23 million gap). The Authority plans to continue Capital investment to ensure that core assets are maintained and protected. Officers have reviewed 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.<br><br>Given the Authority's track record and that there is time (albeit limited) to develop savings plans for 2019/21 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 2018. |

## Appendix 1

# Recommendations raised and followed up

Recommendations raised as a result of our work in the current year are as follows:

| Priority rating for recommendations | | | | | |
|---|---|---|---|---|---|
| ❶ | Priority one: 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. | ❷ | Priority two: 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. | ❸ | Priority three: 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. |

We have not identified any recommendations to date for the current year.

We have followed up the recommendations from the prior year's audit, in summary:

| Total number of recommendations | Number of recommendations implemented | Number outstanding (repeated below): |
|---|---|---|
| 3 | 3 | 0 |

# Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- 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; and
- 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 2017/18, presented to you on February 2018.

Materiality for the Authority's accounts was set at £3.6 million which equates to around 1.1% of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to 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 £180,000 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 3

# Audit differences

### Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £[XXX]K are shown below.

| Authority unadjusted audit differences (£'000) | | | | | | |
|---|---|---|---|---|---|---|
| # | Income and expenditure statement | Movement in reserves statement | Assets | Liabilities | Reserves | Comments |
| 1 | Dr Account […] | Cr Account […] | | | | [Explain basis of adjustment] |
| 2 | | Dr Account […] | Cr Account […] | | | [Explain basis of adjustment] |
| | **Dr/Cr […]** | **Dr/Cr […]** | **Dr/Cr […]** | **Dr/Cr £[…]** | **Dr/Cr […]** | **Total impact of uncorrected audit differences** |

| Pension fund unadjusted audit differences (£'000) | | | | | | |
|---|---|---|---|---|---|---|
| # | Income and expenditure statement | Movement in reserves statement | Assets | Liabilities | Reserves | Comments |
| 1 | Dr Account […] | Cr Account […] | | | | [Explain basis of adjustment] |
| 2 | | Dr Account […] | Cr Account […] | | | [Explain basis of adjustment] |
| | **Dr/Cr […]** | **Dr/Cr […]** | **Dr/Cr […]** | **Dr/Cr £[…]** | **Dr/Cr […]** | **Total impact of uncorrected audit differences** |

## Appendix 3

# Audit differences

### Adjusted audit differences

To assist the Governance and Ethics Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

| Authority adjusted audit differences (£'000) | | | | | | |
|---|---|---|---|---|---|---|
| # | Income and expenditure statement | Movement in reserves statement | Assets | Liabilities | Reserves | Comments |
| 1 | | | Dr Account […] | Cr Account […] | | [Explain basis of adjustment] |
| 2 | | | | Dr Account […] | Cr Account […] | [Explain basis of adjustment] |
| | **Dr/Cr […]** | **Dr/Cr […]** | **Dr/Cr […]** | **Dr/Cr £[…]** | **Dr/Cr […]** | **Total impact of corrected audit differences** |

## Appendix 3

# Audit differences

### Presentational adjustments

We identified presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). Whilst the majority of these adjustments were not significant, we identified a [limited] number of adjustments of a more significant nature and details of these are provided in the following table. [It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.]

| Presentational adjustments | |
|---|---|
| **#** | **Basis of audit difference** |
| 1 | [Provide details of the presentational change involved – note that this does not need to cover spelling and grammatical changes but should be used to report more substantial adjustments] |
| 2 | [Provide details of the presentational change involved – note that this does not need to cover spelling and grammatical changes but should be used to report more substantial adjustments] |

## Appendix 4

# Audit independence

### ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF WEST BERKSHIRE COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

### 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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. 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 are satisfied that our general procedures support our independence and objectivity.

# Audit independence

## Independence and objectivity considerations relating to the provision of non-audit services

*Summary of fees*

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

| | **2017-18 £** | **2016-17 £** |
|---|---|---|
| Audit of the Authority | 96,653 | 96,653 |
| Mandatory assurance services (Housing benefits claim) | 10,560 | 12,391 |
| Audit related assurance services | 3,300 | 3,300 |
| **Total Non Audit Services** | **3,300** | **3,300** |

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.03:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

# Audit independence

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

| Description of scope of services | Principal threats to independence and Safeguards applied | Basis of fee | Value of services delivered in the year ended 31 March 2018 £ | Value of services committed but not yet delivered £ |
|---|---|---|---|---|
| **Audit-related assurance services** | | | | |
| Grant Certification – Teachers Pensions Return<br>Completion of Agreed Upon Procedures in order to certify the return | The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats. | Fixed Fee | 3,300 | 3,300 |
| **Mandatory assurance services** | | | | |
| Grant Certification – Housing Benefit Subsidy Return<br>Completion of work specified by PSAA to certify the return | The nature of this mandatory assurance service is to provide independent assurance on the claim. As such we do not consider it to create any independence threats. | Fixed Fee | 10,560 | 10,560 |

*Contingent fees*

We have not agreed any contingent fees with the Authority.

# Audit independence

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Governance and Ethics Committee.

### Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

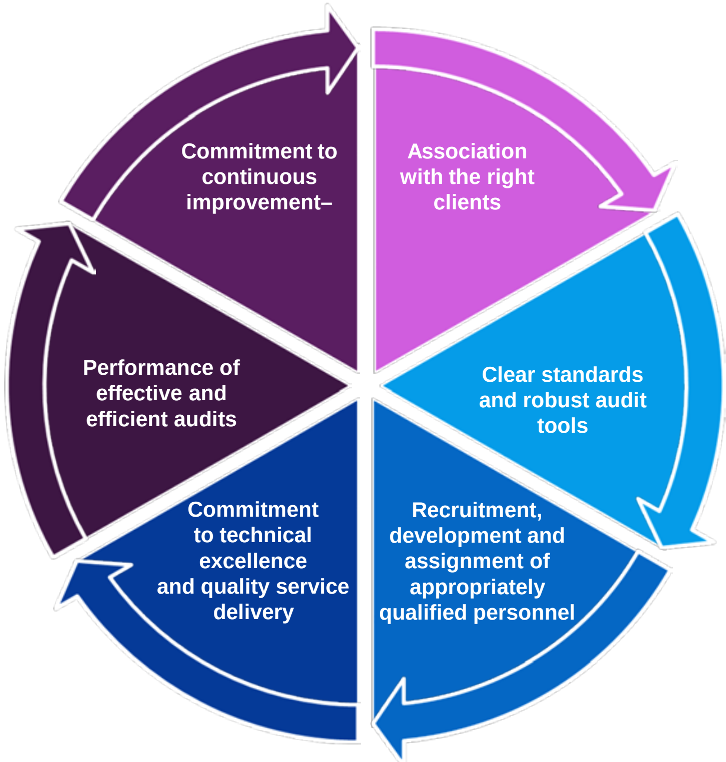
**KPMG LLP**

# Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management




- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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