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Report to those charged with governance (ISA 260) 2011/12

West Berkshire Council

30 August 2012

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Sayers, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Introduction

This report summarises:

- the key issues identified during our audit of West Berkshire Council's ('the Authority's) financial statements for the year ended 31 March 2012; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

Financial statements

Our audit of the financial statements can be split into four phases:

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first two stages to management , there were no significant matters to report. Where appropriate findings are included in this report.

This report focuses on the final two stages: substantive procedures and completion. It also includes any additional findings in respect of our control evaluation that we have identified since we conducted our interim work in March.

Our final accounts visit on site took place between 16 July 2012 and 17 August 2012. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

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

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have also now completed our work in respect of the 2011/12 VFM conclusion.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2011/12 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

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

Headlines

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2012. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit has identified a total of five audit adjustments with a total value of £2.4 million. The impact of these adjustments is to: ■ Increase the deficit on the bottom of the I&E for the year by £1.0 million; and ■ Increase the net worth of the Authority as at 31 March 2012 by £2.4 million. We have included a full list of significant audit adjustments at Appendix 3. All of these were adjusted by the Authority. We have not raised any recommendations in relation to the matters highlighted above. We noted that the Authority has written out a number of assets in year due to historic errors within its asset register. We have raised a recommendation regarding this and this can be seen in Appendix 1.
Critical accounting matters	We have worked with Officers throughout the year to discuss specific risk areas. The Authority has addressed the issues appropriately.
Accounts production and audit process	We have noted an improvement in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented all of the recommendations in our *ISA 260 Report 2010/11.*
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ■ *Confirmation from the RBWM PF actuary that the value of the longevity scheme in the pension scheme assets is appropriate.* ■ *Review of the Council's Whole of Government Accounts submission* Before we can issue our opinion we require a signed management representation letter and need to complete our post balance sheet events review up to the date of signing. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2012.

Proposed opinion and audit differences

Our audit has identified a total of five audit adjustments to date.

The impact of these adjustments is to:

- **Increase the deficit on the provision of services for the year by £1.0 million; and**
- **Increase the net worth of the Authority as at 31 March 2012 by £2.4 million.**

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2012.

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.

Our audit identified a total of five significant audit differences, which we set out in Appendix 3. It is our understanding that these 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 2012.

The net impact on the General Fund as a result of audit adjustments is nil.

There are no unadjusted audit differences.

Movements on the General Fund 2011/12

£m	Pre-audit	Post-audit	*Ref (App.3)*
Deficit on the provision of services	53.1	54.1	*1,2,3*
Adjustments between accounting basis & funding basis under Regulations	(50.8)	(50.9)	*1,2,3,4*
Transfers from earmarked reserves	(2.2)	(3.1)	*1*
Decrease in General Fund	**0.1**	**0.1**	

Balance Sheet as at 31 March 2012

£m	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant & equipment	449,471	452,719	*2,3*
Other long term assets	264	264	
Current assets	18,849	19,502	
Current liabilities	(41,859)	(42,242)	*5*
Long term liabilities	(269,205)	(270,010)	*1,5*
Net worth	**157,790**	**160,233**	
General Fund	(7,780)	(7,780)	
Other reserves	(150,010)	(152,453)	*1,2,3*
Total reserves	**157,790**	**160,233**	

Proposed opinion and audit differences (continued)

One issue identified with regard to the treatment of the Council's PFI scheme required material corrections to the Council's unusable reserves. The net overall impact on net worth was not material.

The wording of your Annual Governance Statement accords with our understanding.

Of the other audit adjustments we have identified, the most significant in monetary value impacting on the prime statements are as follows:

- Removal of St Bart's Academy assets £1,973k
- Correcting the treatment of two further Academy schools as disposals rather than impairments £3,382k
- Corrections to bringing the PFI on balance sheet £5,221k. While the net impact is not material this did require material adjustments to the Council's unusable reserves.
- Creating a provision for the recent MMI ruling £805k

Further changes identified related to disclosure notes including:

- Revisions to the grants Note 7b to include accrued amounts £1,933k
- Correcting a pension note 9c figure posting in the wrong direction £2,816k

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2011/12 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Critical accounting matters

We have worked with Officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

In our External Audit Plan 2011/12, presented to you in January we identified the key risks affecting the Authority's 2011/12 financial statements.

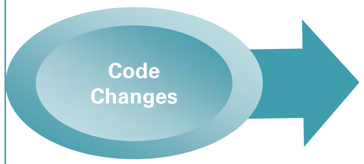
We have now completed our testing of these areas and set out our final evaluation following our work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
 **Audit areas affected** ■ Reserves and balances ■ Provisions	**Risk** As at December 2011, the Authority was forecasting that it would overspend against its 2011/12 revenue budget by £443k. Actions taken in year include savings made through a dedicated programme which included a redundancy scheme. The main area of overspend was Adult Social Care by £1,705k early in the financial year with other services forecasting close to or below breakeven. The Authority estimated that further savings needed to be achieved during 2012/13 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.	**Our audit work** In conjunction with our VFM work we critically assessed the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. In the latter part of 2011-12 actions taken by the Authority to address the pressures arising from Adult Social Care proved effective and there was limited net movement on the year end general fund balance year on year. The Authority is performing in line with its Adult Social Care budgets for 2012-13 and we are satisfied that appropriate action is being taken to address financial pressures.

Critical accounting matters (continued)

We have worked with Officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Key audit risk	Issue	Findings
 **Audit areas affected** ■ Asset Valuation ■ Various	**Risk** The 2011/12 *Code* included a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art. The 2011/12 *Code* also clarified requirements in a number of areas where ambiguity was identified in the 2010/11 Code.	**Our audit work** Our year end audit work identified that the Authority had introduced the new Code requirements appropriately.

Accounts production and audit process

We have noted an improvement in the quality of the supporting working papers.

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

The Authority has implemented all of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has strengthened its financial reporting process through review of its accounts format and review of its grant recognition procedures. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 28 June 2012.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 19 January 2012 and discussed with the Authority set out our working paper requirements for the audit. The quality of working papers provided largely met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved audit queries in a reasonable time.

Prior year recommendations

The Authority has now implemented all of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Appendix 2 provides further details.

Completion

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of West Berkshire Council for the year ending 31 March 2012, 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 Audit Commission's requirements in relation to independence and objectivity.

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

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Officer, a draft of which is reproduced in Appendix 5. We require a signed copy of your management representations before we issue our audit opinion.

This letter seeks a specific representation that, following the £3.7m of write outs in year, you are satisfied that the remaining assets in your asset register are materially correct.

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 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 2011/12 financial statements.

VFM conclusion

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

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

Background

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

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

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

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

Conclusion

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

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

We noted key risks in our External Audit Plan 2011/12. As we were satisfied that in all cases, sufficient work in relation to these risks had been carried out by the Authority, the Audit Commission, other inspectorates or review agencies to mitigate the residual audit risks for our VFM conclusion, we concluded that we did not need to carry out any specific additional work ourselves.

Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

Priority rating for recommendations		
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.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Observation** During our work on disposals we noted that £3.7m of net assets were written out by the Council in year with regard to items that had been included or remained in its records in error. **Risk** While this is not material and we have sought specific representation regarding any such residual items this indicates that the asset register from which the accounts figures are derived is not fully reconciled with underlying asset records. **Recommendation** We recommend that the Council seek to fully reconcile their asset register with underlying records in order to confirm all remaining assets exist.	The Council is undertaking an exercise to ensure that the new asset management system is fully reconciled to the Financial Asset Register. Officer responsible : Joseph Holmes Due date: 31/03/2013

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2010/11.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2010/11* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2012
1	3	**Format of the Accounts** **Observation** The accounts submitted for audit largely follow the format of the prior year UK GAAP compliant accounts. While these have been adapted for IFRS transition there are a number of areas where the CIPFA template guidance in their "*Example Financial Statements and Notes to the Accounts for Local Authorities* 2010-11"could be more closely adopted both to aid the accounts preparation process and the ease of use of the accounts for the reader. **Risk** Accounts are not presented in a format that is easily understood by readers. **Recommendation** We recommend that moving forward the Council reviews the disclosures in its accounts and considers revising these to the more simplified format suggested by CIPFA in areas where it considers this to be appropriate. This includes reflection on the balance of information presented between the notes and primary financial statements.	Joseph Holmes 31/03/2012	Implemented. The Council's Financial Accountant conducted a review of the format of the accounts in year and this has led to a reduction in the size of the accounts and improved readability.

Appendix 2: Follow up of prior year recommendations (continued)

The Authority has implemented all of the recommendations in our *ISA 260 Report 2010/11.*

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2012
2	2	**Capital Grants** **Observation** Within the creditors figure in the accounts received for audit were £25m of amounts relating to capital grants received in advance. Under the new IFRS guidance £21m of these should have been released to income as they did not have conditions attached whereby they would be likely to be repaid. **Risk** Grant income is not realised in the appropriate financial year and the Authority's surplus is therefore understated. **Recommendation** The Council should develop an evidenced process for reviewing all new grant income and assessing whether it has conditions attached.	Joseph Holmes 31/03/2012	Implemented. The Council have revised their grants recognition processes in year and no such similar errors have arisen during current year testing.

Appendix 3: Audit differences

This appendix sets out the significant audit differences. It is our understanding that all of these will be adjusted.

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

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of West Berkshire Council's financial statements for the year ended 31 March 2012.

	Impact (£'000)					
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	Basis of audit difference (£'000)
1	Dr Non Distributed Costs £805			Cr Provisions £805	Dr Earmarked Reserves £805	The Authority had put aside amounts to fund potential MMI judgment in its earmarked reserves. However, these met the criteria of a provision and should have been treated as such. This decreases the net balance sheet worth of the Authority by £805.
2	Cr Culture, Environmental, Regulatory and Planning Services Expenditure £5,221	Dr General Fund £5,221 Cr PFI Reserve £5,221	Dr PPE £5,221		Dr Capital Adjustment Account £20,428 Cr PFI Reserve £25,649	Correct ions to the treatment of the PFI asset brought on line in year. This increases the net balance sheet worth of the Authority by £5,221.
3	Dr Academy Schools Removed £1,973	Cr General Fund £1,973 Dr Capital Adjustment Account £1,973	Cr PPE £1,973		Dr Capital Adjustment Account £1,973	Removal, from the Authority's balance sheet, of St Bart's School which became an Academy in year. This decreases the net balance sheet worth of the Authority by £1,973.

Appendix 3: Audit differences (continued)

Corrected audit differences (continued)

	Impact (£'000)					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference (£'000)**
4	Cr Non Distributed Costs £31,245 Cr Surplus on Revaluation of Fixed Assets (Revaluation Reserve) £3,382 Dr Academy Schools Removed £34,627	Cr General Fund £3,382 Dr Revaluation Reserve £3,382				Revising the categorization to ensure that Academy schools written out are treated consistently throughout the accounts as a disposal rather than an impairment. This has no bottom line impact on the net worth of the Authority.
5			Dr Cash and Cash Equivalents £653	Cr Cash and Cash Equivalents £653		As the Authority's year end net cash position was overdrawn the figure should be moved from assets to liabilities. This has no bottom line impact on the net worth of the Council.
	Cr £2,443	**£0**	**Dr £3,248**	**Cr £805**	**Cr £2,443**	**Total impact of corrected audit differences**

There are no uncorrected audit differences.

Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

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

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission 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. Audit Commission 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 Audit 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 Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

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

Appendix 4: Declaration of independence and objectivity (continued)

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of West Berkshire Council for the financial year ending 31 March 2012, 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 Audit Commission's requirements in relation to independence and objectivity.

Appendix 5: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of West Berkshire Council ("the Authority") for the year ended 31 March 2012, for the purpose of expressing an opinion:

i) as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2012 and of the Authority's expenditure and income for the year then ended; and

ii) whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1) The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

- give a true and fair view of the financial position of the Authority as at 31 March 2012 and of the Authority's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

The financial statements have been prepared on a going concern basis.

2) Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3) All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 requires adjustment or disclosure have been adjusted or disclosed.

Appendix 5: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Information provided

4) The Authority has provided you with:

- access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
- additional information that you have requested from the Authority for the purpose of the audit; and
- unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

5) All transactions have been recorded in the accounting records and are reflected in the financial statements.

6) The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

7) The Authority has disclosed to you all information in relation to:

a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

8) The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9) The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10) The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Appendix 5: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

11) On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Authority further confirms that:

a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,

have been identified and properly accounted for; and

b) all settlements and curtailments have been identified and properly accounted for.

Specific Representation

12) The Authority is satisfied that, following the £3.7m of write outs of fixed assets in year the remaining assets in the asset register are materially correct.

This letter was tabled and agreed at the meeting of the Governance and Audit Committee on 10 September 2012.

Yours faithfully,

Chair of the Governance and Audit Committee

Head of Finance

KPMG

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