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Report to those charged with governance (ISA 260) 2012/13

West Berkshire Council

September 2013

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, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

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Section one

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 2013; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

Financial statements

Our *External Audit Plan 2012/13* presented to you in February 2013 set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during March 2013 (interim audit) and July to August 2013 (year end audit). We carried out the following work:

Control Evaluation

- Evaluate and test selected controls over key financial systems.
- Review relevant internal audit work.
- Review accounts production process.
- Review progress on critical accounting matters.

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

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion. This included:

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

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 2012/13 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 2013. 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 net value of £3.2 million. The impact of these adjustments is to reduce the deficit on the provision of services by £3.2 million. However, this would be offset by amendments to the movement in reserves resulting in no impact to useable reserves. We have included a full list of significant audit adjustments at Appendix 3. All of these were adjusted by the Authority except one adjustment relating to a potential classification error in the comprehensive income and expenditure account. We are satisfied this is not material. We have also made a recommendation concerning the establishment of a stronger control process over amendments to prior year figures in the notes to 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. We did identify that the Authority has not obtained a valuation of the Padworth PFI asset as originally planned in the 2012/13 rolling programme of valuations, and have recommended that this is done so for 2013/14. We have requested specific representation that the Authority is satisfied there are no indication of impairment to this asset.
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 2011/12* relating to the financial statements.
Control environment	The Authority's control environment is effective overall, and controls over the key financial systems are sound.

Headlines (continued)

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

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ■ Property, Plant and Equipment valuations, including work on the Padworth waste management private finance initiative. ■ Movement in Reserves Statement. ■ Cashflow Statement. ■ Financial Instrument Disclosures. In addition before we can issue our opinion we require a signed management representation letter and will need to complete our post balance sheet events review up until the point the accounts are signed. 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 and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013.

Proposed opinion and audit differences

Our audit has identified four audit adjustments. The impact of these adjustments is to decrease the deficit on the provision of services for the year by £3.2 million. This has had no impact on the net worth of the Authority

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2013.

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 non-trivial audit differences, which we set out in Appendix 3. The Authority have adjusted for four of these differences. The fifth audit difference has not been adjusted and we will require specific representation that the Authority does not view it as material.

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 2013.

The adjustments have had no impact on the underlying general fund position or the net worth of the Authority.

As part of the audit the Authority made changes to a some prior period figures in notes to the financial statements. None of these changes were material and we have recommended the introduction of controls to ensure changes are only made to the financial statements where they are material (**recommendation one**).

Movements on the General Fund 2012/13

£m	Pre-audit	Post-audit	*Ref (App.3)*
Deficit on the provision of services	63,164	58,729	*1, 2, 4, 5*
Adjustments between accounting basis & funding basis under Regulations	(64,933)	(60,498)	*1, 2*
Transfers to earmarked reserves	1,548	1,548	
Increase in General Fund	**(221)**	**(221)**	

Balance Sheet as at 31 March 2013

£m	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant and equipment	447,795	438,800	*3*
Other long term assets	66	9,061	*3*
Current assets	13,972	13,972	
Current liabilities	(48,302)	(48,302)	
Long term liabilities	(273,104)	(273,104)	
Net worth	**140,427**	**140,427**	
General Fund	(8,001)	(8,001)	
Other usable reserves	(37,400)	(37,400)	
Unusable reserves	(95,026)	(95,026)	
Total reserves	**(140,427)**	**(140,427)**	

Proposed opinion and audit differences (continued)

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

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 2012/13 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

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

Explanatory foreword

We have reviewed the Authority's explanatory foreword and can confirm it is not inconsistent with the financial information contained in the audited 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 2012/13*, presented to you in February, we identified the key risks affecting the Authority's 2012/13 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work. The table below sets out our detailed findings for each risk,

Key audit risk	Issue	Findings
Savings plans	As at December 2012, the Authority was forecasting that it would deliver its 2012/13 budget in overall terms with a small surplus. This was in the context of a budget including a savings programme totalling £8.9 million. The Authority currently estimates that further savings will need to be achieved during 2013/14 and 2014/15 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care and Children's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability. If there are any resultant significant changes to the Authority's financial assets and liabilities at year end, these will need to be accounted for in the year end financial statements as appropriate.	The Authority delivered a small surplus against its 2012/13 budget in line with expectations. As part of 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 taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We are satisfied that the Authority's medium term financial planning is robust and takes into consideration future funding challenges. As pat of our audit of the financial statements we have reviewed the accounts for any significant changes in assets and liabilities. We have also reviewed estimation and valuation techniques employed by the Authority to account for these assets and liabilities. Subject to the completion of our work we are satisfied that these have been appropriate.

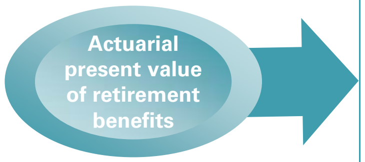
Critical accounting matters (continued)

Our work on Property, Plant and Equipment identified that the Authority's private finance initiative (PFI) asset was not revalued in year as planned. We recommend that such a revaluation is conducted during 2013/14.

Key audit risk	Issue	Findings
	As at 31 March 2012 the net book valuation of the Authority's Estate was £452.7 million and consisted of a number of different assets including Operational Land and Buildings, Investment Properties, Assets Under Construction and Infrastructure Assets. The Authority previously employed an internal valuer to determine the fair value of these assets but has elected to use an external valuer for the first time during the 2012/13. There is a risk due to the size and assorted nature of the Authority's estate, that this value will be materially misstated. Our work in the prior year also raised a recommendation regarding reconciling the asset register with underlying records in order to identify any properties recorded which are no longer owned by the Authority.	We assessed the instructions provided to the valuer to ensure that they were comprehensive and requested the valuation to be carried out inline with the CIPFA / LASAAC Code of Practice on Local Authority Accounting. We also assessed the qualifications and experience of the valuer in order to confirm that we could place reliance on their work. We can confirm that we were able to place reliance on the valuer's work. We performed substantive procedures over a sample of valuations and their depreciation calculations to obtain assurance on the accounting treatment had been applied correctly. We are satisfied that, subject to completion of our Property, Plant and Equipment work, these have been accounted for correctly. In relation to the Padworth waste management PFI asset the authority had intended to obtain a valuation in the current year. Although initially they commissioned a valuation they have were unable to agree an appropriate valuation basis with the valuer. The Authority has therefore decided to engage a specialist valuer to value the asset a part of the 2013/14 accounts preparation process, and we have included this as **recommendation two** in Appendix 1. The PFI asset is currently held at cost in the balance sheet at a value of £31 million. The Authority is of the opinion that this the asset in not impaired. We will require specific representation from the Authority confirming this.

Critical accounting matters (continued)

Our work on the actuarial present value of retirement benefits did not identify any matters arising.

Key audit risk	Issue	Findings
	The Authority is required to provide the value of the pension fund asset/liability as at the reporting date, taking into account numerous and complex assumptions. This creates a risk that the financial statements may be materially misstated. Small changes to these assumptions can have a large effect on the reported value and the Authority should ensure that the information provided to the Actuary is up to date and complete to ensure the values reported in the accounts take into account all requisite information.	We reviewed the instructions provided to the Actuary and the information supplied to the Actuary to come to their conclusions. We also considered the comments made by the actuary and reviewed their assumptions in line with the findings of an independent review of major actuaries. No issues of concern were identified in this regard. We undertook tests of detail on the accounting entries performed as a result of the information returned from the actuary and ensured that they were compliant with IAS19 Employee Benefits.

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 could be completed within the planned timescales.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12* 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 improvements such as working with property services to conduct a detailed review of asset holdings. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 28 June 2013.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in January 2013 and discussed with the finance team set out our working paper requirements for the audit. The quality of working papers provided was variable but met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. In cases where we experienced delays these were typically due to the complex nature of the queries raised and the resulting need for detailed local review.

Prior year recommendations

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

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12* relating to the financial statements.

Appendix 2 provides further details.

Organisational and control environment

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

We also review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy. This has also been complemented by our own testing on selected systems.

Key findings

We consider that your organisational controls are effective overall.

We did not note any weaknesses in respect of individual financial systems that impacted on our audit.

Aspect	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3

Key:
1 Significant gaps in the control environment.
2 Deficiencies in respect of individual controls.
3 Generally sound control environment.

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 2013, 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 Head of Finance, a draft of which is reproduced in Appendix 5. We require a signed copy of your management representations before we issue our audit opinion.

We are seeking a specific management representation that the Authority is not aware of any circumstances that would result in an impairment of the carrying value of the Padworth PFI asset. We will also require the unadjusted audit difference to be detailed in an attachment to the letter.

Other matters

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

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

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2012/13 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	✓

The following page includes further details of our VFM risk assessment.

Specific VFM risks

We have not identified any specific VfM risks which required detailed consideration.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to any internal risk areas are adequate.

Work completed

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

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Key findings

We concluded that we did not need to carry out specific detailed work for individual internal risk areas as there was sufficient relevant work that had completed by the Authority or we had sufficient knowledge of the arrangements in place from our work on the financial statements.

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	❸	**Amendments to prior year figures** Amendments were made to the prior period figures in the notes to the accounts, some after the draft accounts had been submitted to audit. The amendments were to notes 9, 15, 17, 19 and 21, though none of the amendments were material. The CIPFA/LASAAC Code of Practice on Local Authority Accounting only requires the correction of prior year errors where they are material. If controls are not exercised over the amendment of prior year figures, it increases the time taken to complete the audit as explanations are sought, could cause confusion to readers of the financial statements, and increases the risk of a material change being made without it being properly approved. A process should be established to ensure amendments to prior period figures are only made where they are material to the user.	

Appendix 1: Key issues and recommendations (continued)

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	2	**Valuation of the Padworth PFI facility** The Padworth PFI has been capitalised at construction cost and has a net book value of £30 million as at 31 March 2013. The CIPFA/LASAAC Code of Practice on Local Authority Accounting requires assets to be carried at fair value and as such a valuation was commissioned as part of the 2012/13 rolling programme of asset valuations. However, the Authority were unable to agree a valuation approach with the valuer and as such a valuation was not obtained and the asset remains at cost. There is a risk that the carrying value of the asset in the balance sheet is different from the fair value of the asset. The Authority should obtain a fair value valuation for the Padworth PFI asset as part of the 2013/14 rolling programme of valuations and incorporate this into the financial statements.	

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2011/12* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	1
Remain outstanding	0

No.	Risk	Issue and recommendation	Management response, Officer responsible and due date	Status as at August 2013
1	❶	**Fixed asset register** During our work on disposals we noted that £3.7m of net assets were written out by the Authority in year with regard to items that had been included or remained in its records in error. 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. We recommend that the Authority seek to fully reconcile their asset register with underlying records in order to confirm all remaining assets exist.	**Response** The Authority is undertaking an exercise to ensure that the new asset management system is fully reconciled to the Financial Asset Register. **Officer responsible** Joseph Holmes, Chief Accountant **Due date** 31/03/2013	**Implemented** The Authority has undertaken a detailed exercise in year to reconcile its Asset Register with its Asset Management System and identified a number of assets which it considered that it should no longer be accounting for. Appropriate adjustments were made in the Authority's accounts to allow for the removal of these assets.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Authority's case is the Audit and Governance 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 the Authority's financial statements for the year ended 31 March 2013. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

	Impact £'000					Basis of audit difference
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
1	Cr Net Cost of Services: £4,435	Dr General Fund: Adjustments between accounting basis and funding basis under regulation: £4,435				To correct postings that should have been made direct to reserves but which have been posted to net cost of services in error. The Authority have been unable to fully identify which service lines they were originally posted to, so there remains an unadjusted audit difference which is highlighted at 5 below.
2	Dr Losses on Disposal: £17,255 Cr Net Cost of Services: £14,927	Cr General Fund: Adjustments between accounting basis and funding basis under regulation: £2,328				Schools that have transferred to Academy status should be treated as a disposal rather than an impairments as the assets are no longer controlled by the Authority.

Appendix 3: Audit differences (continued)

This appendix sets out the significant audit differences.

	Impact £'000					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
3			Dr Other Long Term Assets: £8,995 Cr Property, Plant & Equipment: £8,995			Amend the classification of property, plant and equipment to demonstrate that investment properties are a separate type of asset.
4	Dr Cultural and Related Services: £8,461 Dr Environmental and Regulatory Services: £20,874 Dr Planning Services: £3,829 Cr Cultural, Environmental, Regulatory and Planning Services: £33,164					To provide an analysis of net cost of services in line with CIPFA Service Reporting Code of Practice which requires separate lines for Cultural and Related Services, Environmental and Regulatory Services, and Planning and Development Services.
	Cr £2,107	**Dr £2,107**	**-**	**-**	**-**	**Total impact of adjustments**

Appendix 3: Audit differences (continued)

This appendix sets out the significant audit differences.

Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of the Authority's financial statements for the year ended 31 March 2013.

	Impact £'000					
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	Basis of audit difference
5	DR Net Cost of Services: £4,435 CR Unspecified service line: £4,435					There is an uncertainty as amounts posted to the comprehensive income and expenditure account in error (see 1 above). The Council have made correcting postings to the comprehensive income and expenditure account but for an element of this have been unable to determine which service line any original incorrect items were posted to. The correcting postings were made to Non Distributed Costs but there is a chance that these corrections should have been made to an alternative line and as such that a residual mis-classification error remains between comprehensive income and expenditure headings. The maximum value of this is £4.4 million and has no impact on the bottom line.
	-	-	-	-	-	**Total impact of 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 Audit and Governance 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 2013, 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.

We have sought a specific representation that the Authority does not consider the decision not to revalue its PFI asset in year to be of material significance to the financial statements.

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 2013, for the purpose of expressing an opinion as to whether these:

i. give a true and fair view of the financial position of West Berkshire Council as at 31 March 2013 and of its expenditure and income for the year then ended; and

iii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the 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 2013 and of the Authority's expenditure and income for the year then ended; and
   - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

   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 2012/13 require adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

6. 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.
7. All transactions have been recorded in the accounting records and are reflected in the financial statements.
8. 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.

Appendix 5: Draft management representation letter (continued)

7. 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.

8. 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.

10. 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.

11. 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 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

12. 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 2012/13.

    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 2012/13.

13. 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

14. The Authority confirms that there are no issues it is aware of that would lead it to conclude that the value of the Padworth PFI facility in the accounts is impaired or materially misstated.

This letter was tabled and agreed at the meeting of the Audit and Governance Committee on *2 September 2013*.

Yours faithfully,

Head of Finance (s151 officer)

KPMG

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