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Report to those charged with governance (ISA 260) 2010/11

West Berkshire Council

DRAFT: 01 September 2011

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 Greg McIntosh, 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 2011; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

We do not repeat matters we have previously communicated to you.

Financial statements

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

Planning → Control Evaluation → Substantive Procedures → Completion

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 not previously communicated to you.

Our final accounts visit on site took place between 11 July 2011 and 19 August 2011 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 2010/11 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 2010/11 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 2011. 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 3 current year audit adjustments with a total value of £78,186k to date. The impact of these adjustments is to: ■ Increase debtors and creditors on the balance sheet by £1,656k with no net impact on net worth. ■ Increase your financial instruments assets by £15,623k and your financial instruments liabilities by £39,730k which is a disclosure only item; and ■ Release £21,177k from creditors to income and £4,754k from contributions deferred to creditors which increases your net worth by £21,177k. This is recognised in the income and expenditure account and has no bottom line impact on the general fund balance; Additionally our work on IFRS restatement has identified the following adjustment: ■ Release £37,971k from 08/09 creditors and £26,378k from 09/10 creditors to income as part of our audit of IFRS restatement. This increased net worth and has no bottom line impact on the general fund balance; The current year and prior year income and expenditure account surplus on provision of services has increased each year to reflect the increases in net worth above. We have included a full list of significant audit adjustments at Appendix 3. All of these were adjusted by the Authority. As this report is draft we are expecting a number of further amendments relating to IFRS restatement and capital grants on the primary statements and relating to financial instruments in the disclosure notes. We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix 1.
Critical accounting matters	We have worked with officers throughout the year to discuss specific risk areas. The Authority 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, particularly given the transition to IFRS, and the associated changes required. 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 2009/10* relating to the financial statements.

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: ▪ Whole of government accounts ▪ Cashflow Statement Before we can issue our opinion we require a signed management representation letter. 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.
VFM risk areas	We consider that the authority is undertaking appropriate measures to ensure a strong financial position is maintained in the current economic and political environment and that the savings made and planned do not impact on the quality of service provided.

Proposed opinion and audit differences

We have identified issues in the course of the audit that are considered to be material. These relate to technical IFRS adjustments and officers have corrected these. These do not impact on the general fund balance.

We anticipate issuing an unqualified audit opinion.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2011.

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 material adjustments relating to capital grants and contributions in the 08/09, 09/10 and 10/11 years. This is a technical issue relating to IFRS restatement and has not impacted on the general fund balance.

Excepting the above our audit identified a number of smaller adjustments which are not material but which the authority has taken the decision to correct. This includes an error relating to the IFRS requirement for an accumulated absences account which impacts on the 2009-10 I&E and an error of £1,656k contained within the current year balance sheet due to a creditor being posted as a negative debtor.

The tables on the right illustrate the total impact of the audit difference on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2011.

The net impact of this adjustment on the General Fund balance as at 31 March 2011 is nil.

Movements on the General Fund 2010/11

£m	Pre-audit	Post-audit
Surplus or (deficit) on the provision of services	678	37,647
Revaluation and actuarial surplus or (deficit)	56,058	56,058
Adjustments between accounting basis & funding basis under regulations	(62,568)	(99,537)
Transfers (to) or from earmarked Reserves	6,517	6,517
Increase or (decrease)in General Fund	**685**	**685**

Balance Sheet as at 31 March 2011

£m	Pre-audit	Post-audit
Property, plant and equipment	448,065	448,065
Other long term assets	390	390
Current assets	17,479	19,136
Current liabilities	(66,579)	(51,813)
Long term liabilities	(163,318)	(158,564)
Net worth	**236,037**	**257,214**
General Fund	(7,801)	(7,801)
Other reserves	(155,517)	(249,413)
Total reserves	**(236,037)**	**(257,214)**

Proposed opinion and audit differences (continued)

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

Of the other audit adjustments we have identified, none have a monetary impact on the 2010-11 primary statements. One relates to a key disclosure note:

- The financial instruments disclosure note was materially mis-stated due to the exclusion of cash and relevant receivables and payables amounts under contract.

We have provided a summary of significant audit differences in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements.

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 2010 ('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 *Financial Statements Audit Plan 2010/11*, presented to you in February 2011, we identified the key risks affecting the Authority's 2010/11 financial statements.

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

Overall we consider that the Council has conducted its IFRS restatement well and this is in line with expectations based on the well structured planning process on which we have previously reported. While we have identified adjustments resulting from our review of this work we consider that these are of a technical nature and are not indicative of significant weaknesses in the financial reporting process.

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

Key audit risk	Issue	Findings
IFRS Conversion Process	**Impact of conversion process** ● The Council will require a lot of planning and resources to ensure a smooth and successful transition to IFRS.	Overall the Council has performed strongly in this area and has clearly benefited from beginning its work on this at an early stage. We have identified a number of technical adjustments relating to the treatment of capital grants and to the employee holiday accrual which have revised the IFRS restated figures in the draft accounts. We do not consider these to be due to significant issues with financial reporting processes.
Provisions	**Impact of staffing changes on provisions** ● The Council will need to give consideration to any need for provisions in relation to planned redundancies	We have confirmed that where the Council has made provision for redundancy costs that this meets the IAS 37 provision criteria. We have not identified the need for any audit adjustments in this area.

Critical accounting matters (continued)

Key audit risk	Issue	Findings
Valuation of Council Assets	**Expected impact of IAS 16** • Local authorities are to component account for any additions or valuations on or after 1 April 2010. This means when an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate each component is accounted for separately.	We have confirmed during our final accounts testing of capital additions that items are being appropriately componentised and that this is being considered by the internal valuers in their work. The asset register system maintains asset details on a component basis and has been reconciled with the figures in the authority's accounts.

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 2009/10* relating to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the 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 more detailed review of the accounts and working papers submitted for audit. There is scope to improve this further by considering further key elements of the example IFRS financial statements presented by CIPFA. This could include reflection on the presentation of the statements and the balance of information between the primary statements and the notes. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 1 July 2011. The Annual Governance Statement was received on 5 August 2011.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 16 February 2011and discussed with the Chief Accountant set out our working paper requirements for the audit. The quality of working papers provided was satisfactory and met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.

Prior year recommendations

The Authority has now implemented all of the recommendations in our *ISA 260 Report 2009/10* 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 2011, 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. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.);
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

New VFM audit approach

We follow a new VFM audit approach this year.

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.

Overview of the new VFM audit approach

For 2010/11, 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.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit

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 pages include further details on the specific risk-based work.

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 as part of our 2011/12 audit work.

Priority rating for recommendations		
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.	***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.	***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	(three)	**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.	

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.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
2	● (two)	**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 realized 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.	

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.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
3	(three)	**Financial Instruments** Observation The financial instruments figures in the accounts submitted for audit did not include an assessment of amounts within receivables and payables which could potentially meet the definition of a financial instrument. Risk This is a key disclosure note and not including financial instruments can significantly alter the view of the authority's financial position for the reader of the accounts. Recommendation The Council should develop a formal structured process for preparing this note to ensure that all relevant accounts are considered with regard to whether they could be financial instruments.	

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2009/10.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2009/10* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	9
Implemented in year or superseded	9
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2011
1	● (two)	**Journal controls** Observation Two types of journals are used by West Berkshire Council; 'Actools' journals, and 'Online' journals. We identified as part of our review that 'Online' journals do not require authorisation, and can be posted by officers working in the business units within the Council. We note that an authorisation process is in place for 'Actools' journals, and that management accounts can be used to identify significant journal errors for both 'Online' and 'Actools' journals. Risk Journals may not be raised appropriately Recommendation West Berkshire Council should look to eliminate the use of 'Online' journals, and move to only using the 'Actools' process.	Joseph Holmes 1.4.2011	Implemented.

Appendix 2: Follow up of prior year recommendations

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2011
2	● (two)	**Payroll controls** Observation The following issues were identified as part of our review of the Council's controls in respect of payroll: 1.Although exceptions reports are being produced, they do not identify amendments to grade, role, spine point, or hours; 2.Although establishment lists are issued to budget holders, there is no process by which the results of this exercise are collated; 3.We sampled 25 starters and identified one instance where a form authorising the appointment of the new starter could not be located; 4.We sampled 25 leavers and identified one instance where an employee hadn't worked for the Council for two years, but remained on the payroll system. We note that no payment had been made during these two years; and 5.We sampled 25 payroll payments and identified one instance where costs had been incorrectly allocated across budget codes. Risk There is a risk that the combination of these issues could mean that a payroll error could go unidentified. We note that significant errors would be identified through review of the management accounts. Recommendation HR should request that budget holders confirm that they have reviewed their establishment list at least every quarter. Any issues identified through this process should be investigated by HR.	Rob O'Reilly 31.12.2010	Implemented with the exception of point 1. The Council have accepted all recommendations with the exception of item 1 on the basis that the items raised are not considered to be exceptions and would not be considered relevant to the report reviewed. Superseded.

Appendix 2: Follow up of prior year recommendations

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2011
3	● (two)	**Authorising expenditure** Observation Expenditure is initiated either through West Berkshire Council creating a purchase order, or through receiving an invoice, for which a purchase order has not been created. We identified that: •Prior to November 2009 the same person could both requisition and authorise a purchase order as long as they had the appropriate authorisation limit. This means that the 2009/10 accounts will include expenditure for which there has not been appropriate segregation of duties; and •The authorisation of payments for non-purchase order transactions is only undertaken for those worth over £5000. Risk There is a risk that payments are not appropriately authorised. Recommendation The Council should introduce sampling of all expenditure made through non purchase order transactions under £5,000 to ensure it is appropriate. This exercise should be documented and subject to manager review	Steve Duffin 31.12.2010	Implemented.

Appendix 2: Follow up of prior year recommendations

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2011
4	● (two)	**Controls over staff transfers** Observation For SX3 (council tax and NNDR system) authorisations for changes in job function are not kept. Risk Users could be given an inappropriate level of access to the system if the appropriate authorisation is not obtained. Recommendation All authorisation obtained for all changes to user access levels should be documented and retained.	Steve Duffin 20.09.2010	Implemented.
5	● (two)	**Password controls** Observation There are no password complexity requirements in iCON (cash receipting system) or ResourceLink (payroll system). Password duration for users in ResourceLink varies between 0 and 999 days. Risk A lack of complexity makes passwords easier to guess, which could undermine accountability and also allow users to gain unauthorised access to privileged Recommendation We recommend that all systems be updated to enforce standard password settings as detailed in the IT Security Policy: •minimum 8 characters; •containing both upper and lower case letters and one numerical digit; and •enforced change every 90 days.	Steve Duffin 31.10.2010	Implemented.

Appendix 2: Follow up of prior year recommendations

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2011
6	● (two)	**Review of users** Observation No periodic reviews of which users have access take place for iCON (cash receipting system), ResourceLink (payroll system) or SX3 (council tax system). Risk There may be users in the system who have left the company or who have inappropriate levels of access for their job role. Recommendation We recommend that a quarterly user review be performed and retained as evidence for audit trail for all systems.	Steve Duffin 31.10.2010	Implemented.
7	● (two)	**Super users** Observation The Head of Benefits and Exchequer currently has supervisor access to ResourceLink (payroll system). Risk It is inappropriate for management to have super user access, as management override could easily be used to bypass authorisation controls in place to ensure accurate financial information. Recommendation The access level for the Head of Benefits and Exchequer should be reviewed to ensure that they only have the level of access necessary to perform their role.	Steve Duffin 30.09.2010	Implemented.

Appendix 2: Follow up of prior year recommendations

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2011
8	● (two)	**Changes to configuration settings** Observation Changes to the "System Control" task, the area of ResourceLink (payroll system) where system configuration settings are maintained, are not logged. Risk An adequate audit trail may not been maintained for system changes Recommendation System audit logging capability for this task should be enabled and changes made to system configuration settings regularly reviewed to ensure that unauthorised changes to core system functionality do not occur.	Steve Duffin 30.9.2010	Implemented.
9	● (two)	**Members interests** Observation Member interests are recorded through members completing a change of interests forms when their circumstances change. An initial form is completed when they join the Council, there is however no central register of members interests. Nor are members required to confirm that there hasn't be a change to their interests on an annual basis. Risk Members interests are not adequately recorded and monitored. Recommendation A database of members interests should be created that can be updated with changes as necessary. Forms declaring changes should be kept as evidence of the members interests. Members should be required to confirm their interests on an annual basis.	David Holling 1.1.2011	Implemented.

Appendix 3: Audit differences

As part of IFRS restatement the authority is required to release grants to income provided they have no conditions which would require their repayment.

Our audit work identified a number of such grants which should have been released during IFRS restatement and this has required a number of adjustments to both prior and current year. None of these have any impact on the general fund balance.

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 2011. 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
Income and expenditure statement	**Adjustments btw. accounting basis & statute**	**Assets**	**Liabilities**	**Reserves**	
		Dr Debtors 1,656	Cr Creditors 1,656		A creditor for £1,656 relating to net business rate amounts due to government was accounted for as a negative debtor.
Dr 10/11 Net Cost of Services 12,957 Cr 10/11 Capital Grants and Contributions 8,483	Cr Adjustments involving the capital reserves 4,474		Dr 10/11 Creditors 16,423 Dr 10/11 Contributions Deferred 4,754	Cr Capital Reserves 21,177	As part of IFRS restatement the authority should have released £21,777k of capital grants from creditors as these had no conditions attached by which they were likely to have been required to be repaid. Due to the recognition of income in 2008-09 and 2009-10 as part of IFRS restatement adjustments the opening creditor balances change. As such the £21,177k released on the left is higher than the adjustment to the I&E as an element of these creditors has already been released as income in earlier years.
Dr 4,474	**Cr 4,474**	**Dr 1,656**	**Dr 19,521**	**Cr 21,177**	**Total impact of adjustments**

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.

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 2011, 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: Management Representation Letter

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 2011, for the purpose of expressing an opinion as to whether these:

(i) give a true and fair view of the financial position of the Authority as at 31 March 2011 and of the Authority's expenditure and income for the year then ended; and

(ii) have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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 2011 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 2010/11. [ISA (UK&I) 580.10]

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. [ISA (UK&I) 540.22]

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 2010/11 require adjustment or disclosure have been adjusted or disclosed. [ISA (UK&I) 560.9]

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. [ISA (UK&I) 210 6b(iii)]

5. All transactions have been recorded in the accounting records and are reflected in the financial statements. [ISA (UK&I) 580.11b]

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. [ISA (UK&I) 240.39a]

Appendix 5: Management Representation Letter

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. [ISA (UK&I) 240.39b]

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

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 [ISA (UK&I) 240.39c]

(b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others. [ISA (UK&I) 240.39d]

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. Further, 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 2010/11 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. [ISA (UK&I) 250.16; ISA (UK&I) 501.12]

9. 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 2010/11. [ISA (UK&I) 550.26a,b]

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 2010/11.

10. 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. [APB PN 22]

This letter was tabled and agreed at the meeting of the Governance and Audit Committee on 5th September 2011.

Yours faithfully,

Chair of the Audit & Governance Committee/

Head Of Finance

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