Public Document Pack

AUDIT AND PERFORMANCE REVIEW PANEL

TUESDAY, 30TH AUGUST, 2016

At 7.00 pm

in the

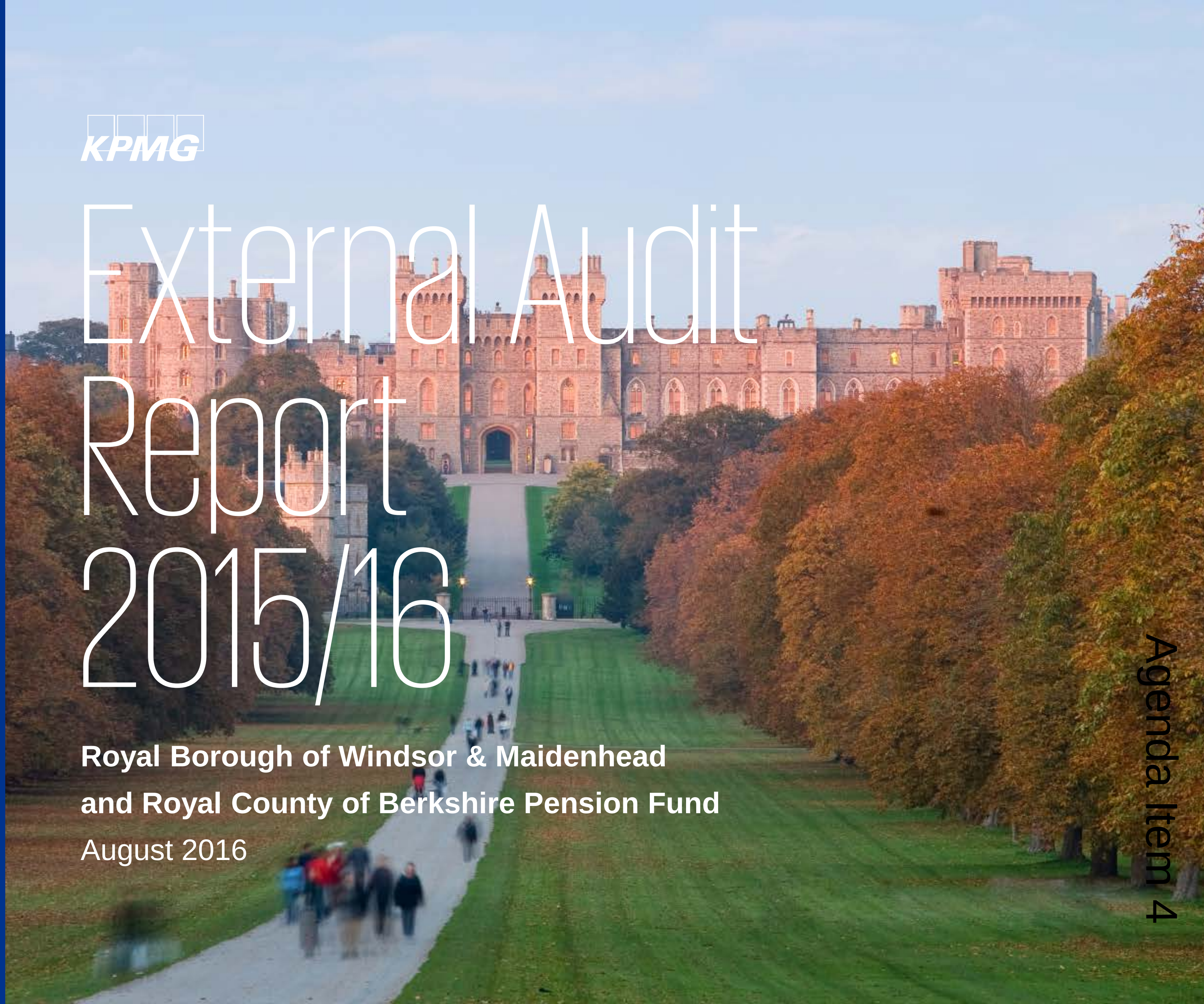
COUNCIL CHAMBER - TOWN HALL,

SUPPLEMENTARY AGENDA

PART I

ITEM	SUBJECT	PAGE NO
4.	AUDIT MEMO - ISA 260 REPORT To consider the report.	3 - 32

This page is intentionally left blank



KPMG

External Audit Report 2015/16

Royal Borough of Windsor & Maidenhead and Royal County of Berkshire Pension Fund

August 2016

Agenda Item 4

Contents

The contacts at KPMG in connection with this report are:

Darren Gilbert
Director

KPMG LLP (UK)

Tel: 02920 468205
darren.gilbert@kpmg.co.uk

Duncan Laird
Manager

KPMG LLP (UK)

Tel: 0117 905 4253
duncan.laird@kpmg.co.uk

Aleksandra Ivockina
Assistant Manager

KPMG LLP (UK)

Tel: 07788 368570
aleksandra.ivockina@kpmg.co.uk

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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at the Royal Borough of Windsor & Maidenhead ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in February 2016, 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 this took place during July 2016.

It also includes any additional findings in respect of our control evaluation which we have identified since our interim visit in March 2016.

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

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- Assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Acknowledgements

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

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

8

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Royal County of Berkshire Pension Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.
Audit adjustments	Our audit has not identified any material audit adjustments to either the Authority's or the Pension Fund's financial statements. A small number of non-significant audit adjustments were identified and management have amended the financial statements for these. In addition, we identified a small number of presentational adjustments required to ensure that both sets of accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant. We have raised one recommendation in 2015/16 relating to the methodology used by the actuary to calculate the value of the longevity hedge in the Pension Fund's financial statements. Further details are provided in Appendix one.
Key financial statements audit risks	We identified the following key financial statements audit risks in relation to the Authority and the Pension Fund in our 2015/16 External Audit Plan issued in February 2016. In relation to the Authority: — Accounting for the Better Care Fund. In relation to the Pension Fund: — Valuation of the longevity hedge. In relation to both the Authority and Pension Fund: — Management override of controls. We have worked with officers throughout the year to discuss these key risks and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.

Headlines (cont.)

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

9

Accounts production and audit process	The draft accounts were prepared and approved by 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. The Authority used 2015/16 as a practice run for the future requirement for earlier closedown and production of the accounts and is well-placed to meet what will be an earlier statutory deadline from 2017/18. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. This is notable given the significant changes at a senior level in the Finance team. We will debrief with the Finance team to share views on the final accounts audit and to identify further efficiencies for the 2016/17 audit process. In particularly we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We identified the following VFM risks during our planning and risk assessment process. — Better Care Fund; and — Achievement of the savings plan. We have worked with officers to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM 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 2016.

Headlines (cont.)

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide 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: — Resolution of outstanding audit queries; — Review of the Pension Fund's longevity hedge calculation by our actuarial specialists; — Final review of the updated financial statements; and — Review of the Pension Fund annual report. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 17 August 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Section three: Financial Statements

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

We have not identified any issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained in the Authority's Statement of Accounts by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's and Pension Fund's financial statements following approval of the Statement of Accounts by the Audit & Performance Review Panel on 30 August 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £4.6 million. Audit differences below £0.2 million are not considered significant.

We did not identify any material misstatements. We identified a small number of issues that have been adjusted by management.

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 in the United Kingdom 2015/16 ('the Code'). We understand that the Authority has addressed all of these.

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.

Narrative statement

The Accounts and Audit Regulations 2015 introduced a new requirement for authorities to prepare a Narrative Report, which replaces the Explanatory Foreword. The Code recommends that the Narrative Report include an analysis of:

- The development and the performance of the authority in the financial year and its position at the end of the year; and
- The financial and non-financial performance indicators as relevant to the performance of the authority.

Although we do not give an opinion on the content of the Narrative Report, we have provided comments and suggestions to help meet the requirements of the regulations.

Proposed opinion and audit differences (cont.)

We have not identified any issues in the course of the audit that are considered to be material.

We have not identified any issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained in the Authority's Statement of Accounts by 30 September 2016.

13

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Pension fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used a materiality level of £25 million. Audit differences below £1.25 million are not considered significant.

We similarly identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

Pension fund annual report

The Pension Fund Annual Report has not been prepared yet and we are yet to confirm that:

— The financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2016. The Pension Fund Annual Report is currently due to be approved by the Berkshire Pension Fund Panel on 7 November 2016. We will need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

14

In our *External Audit Plan 2015/16*, presented to you in February 2016, we identified the significant risks affecting the Authority's 2015/16 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 of the risks that are specific to the Authority.

Significant Risk 1

— **Better Care Fund**

The Better Care Fund (BCF) came into operation on 1 April 2015 for the 2015/16 financial year. To administer the fund, local authorities were required to establish joint arrangements with CCGs to operate a pooled budget to deliver more integrated health and social care. In 2015/16, the Authority established a Better Care Fund with Windsor, Ascot & Maidenhead CCG and Bracknell & Ascot CCG totalling £10.1 million of funding, £2 million of which was provided by the Authority. The Authority is the accountable body for the Better Care Fund and all funds were spent by year end on designated projects. This risk affects only the Authority.

— **Findings**

We reviewed the processes which the Authority has implemented to identify the appropriate costs and contributions to be recognised in its financial statements to ensure that they are effective and appropriate.

We subsequently:

- agreed the value of costs and contributions allocated to the Authority to supporting records and documents;
- confirmed that the wider values disclosed in relation to the overall Better Care Fund agree to supporting records; and
- checked that the disclosures related to the Better Care Fund are in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting in 2015/16.

There are no matters arising from this work that we need to bring to your attention.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

15

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in February 2016, we identified one area of audit focus. This is not considered as a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings.

16

Area of focus 1

— **Fair value of PPE**

Councils are responsible for ensuring the valuation of their PPE is correct, and for conducting impairment reviews that confirm the condition of these assets. Councils typically achieve this by performing an annual review for impairment, a periodic desk top valuation (every three years) and a full valuation in not more than five yearly intervals. The asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit. This risk affects only the Authority.

— **Findings**

The asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit.

The Council has a rolling programme of revaluations which ensures that all assets required to be held at fair value are reviewed at least every five years. The Council engaged Kempton Carr Croft to undertake valuations on all investment properties and a proportion of other land and buildings. Our audit procedures over the valuation of PPE included:

- Assessing the qualifications, objectivity and expertise of the valuer who performed the valuation;
- Reviewed key assumptions within the valuation, including floor area and building cost indices;
- Work to understand the basis upon which any revaluations to land and buildings have been recognised in the financial statements and determined whether they complied with the requirements of the Code; and
- Work to verify the accuracy of the revaluations and impairments recognised by applying the requirements set out in the Code.
- Work to understand how the Authority ensures it is satisfied that there is no material difference between fair value and carrying value for those assets not revalued in the year.

We did not identify any audit adjustments as a result of the procedures performed.

Significant audit risks - pension fund

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

17

In our *External Audit Plan 2015/16*, presented to you in February 2016, we identified the significant risks affecting the Authority's Pension Fund's 2015/16 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 of the risks that are specific to the Pension Fund.

Significant Risk 1

— **Longevity hedge**

The Pension Fund has in place a longevity insurance policy with ReAssure Ltd to cover a closed group of pensioner members. The Pension Fund pays the policy an annual fixed premium where in return the insurer pays out benefits to the pensioners. The contract is recognised on the Pension Funds' Net Asset Statement and increases in value if the life expectancy of Fund members increases. The longevity hedge is currently valued at £65m and is highly judgmental and reliant on professional estimates. Therefore, the contract must be kept under regular review to ensure its valuation and disclosure are in accordance with accounting standards. This risk only affects the Pension Fund.

— **Findings**

We have reviewed the Barnett Waddingham valuation of the longevity contract, which is used in the compilation of the accounts. We noted that the methodology used by the actuary had not been updated to reflect the application of accounting standard IFRS13 to local authorities in 2015/16. We have raised a recommendation for this in Appendix one.

Although we do not expect the change in methodology to reflect IFRS13 to result in a material difference in valuation, we are in the process of working with the actuary to quantify the impact.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Level of prudence

0 1 2 3 4 5 6

Audit difference | Cautious | Balanced | Optimistic | Audit difference

Acceptable range

Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions	2	2	£3.1 million *(PY: £3.7 million)*	The level of provisions has decreased in the year, mainly due to the Authority deciding that existing provisions relating to compulsory purchase and business rate appeals were unlikely to be needed in full. The amounts reversed unused in 2015/16 was £852k, largely relating to the provision for expected business rate appeals. The Authority is slightly on the cautious side of the prudence range and is considered to have sufficient provisions in place. We consider the provision disclosures to be proportionate.
Property, Plant and Equipment (valuations / asset lives)	3	3	£418.4 million *(PY: £447.4 million)*	The Authority engages Kempton Carr Croft to value properties on an annual basis. All investment properties are revalued every year, as well as assets held for sale. A selection of other land and buildings are revalued during the year if they are due to be revalued as part of the Council's five year programme, or if they are being moved from Assets Held for Sale. The valuation methodology used by Kempton Carr Croft assesses Value in Existing Use for the majority of land and buildings and investment properties have been valued on the basis of market value. This is in line with the requirements of the Code of Practice on Local Authority Accounting and accounting standards.
Pensions	2	2	£250.6 million *(PY: £264.1 million)*	The change in pension liability is largely driven by a change in assumptions applied by the actuary, reflecting the changing economic climate. Judgements made on the pension liability are complex and numerous. The assumption used by the actuary have been compared to those of KPMG's own actuarial specialists with no significant variances.
Pension Fund: Longevity hedge	2	3	£65.1 million *(PY: £69.8 million)*	The reduction in the longevity hedge is mainly due to payments made in the year. We noted that the methodology used by the actuary had not been updated to reflect the application of accounting standard IFRS13 to local authorities in 2015/16. Although we do not anticipate that changing the methodology would result in a material difference in valuation, we would generally expect that applying IFRS13 would result in a lower liability value, therefore the Pension Fund is currently towards the cautious end of the prudence scale.

KPMG

Accounts production and audit process

The quality of the accounts and the supporting working papers continues to be good.

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

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 a good financial reporting process and produces statement of accounts of a high standard. The Authority used 2015/16 as a practice run for the future requirement for earlier closedown and production of the accounts and is well-placed to meet what will be an earlier statutory deadline from 2017/18. We consider that accounting practices are appropriate.
Completeness of draft accounts	The draft accounts were prepared and approved by 30 June 2016 in accordance with the DCLG deadline. We received a complete set of draft accounts on 6 July 2016.
Quality of supporting working papers	We issued our *Accounts Audit Protocol* on 19 February 2016, setting out our working paper requirements for the audit. The quality of working papers provided was good and met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved the majority of audit queries in a timely manner. This is notable given the significant changes at a senior level in the Finance team.
Pension Fund Audit	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Control environment for key financial systems

We 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.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

We have also completed specific IT controls work where we are seeking to place reliance on reports run from the financial systems.

Our controls testing did not identify any significant issues, although we did note that the bank reconciliation was not completed on as regular a basis as we would normally expect. Management advised us that this was due to capacity issues during the year in the team that prepares the bank reconciliations and that this was being addressed. We reviewed the year end bank reconciliation and confirmed that it was prepared and reviewed appropriately, therefore we have not raised this as a recommendation.

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 the Royal Borough of Windsor & Maidenhead and the Royal County of Berkshire Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the Royal Borough of Windsor & Maidenhead and the Royal County of Berkshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

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

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Finance for presentation to the Audit & Performance Review Panel. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, 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.

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

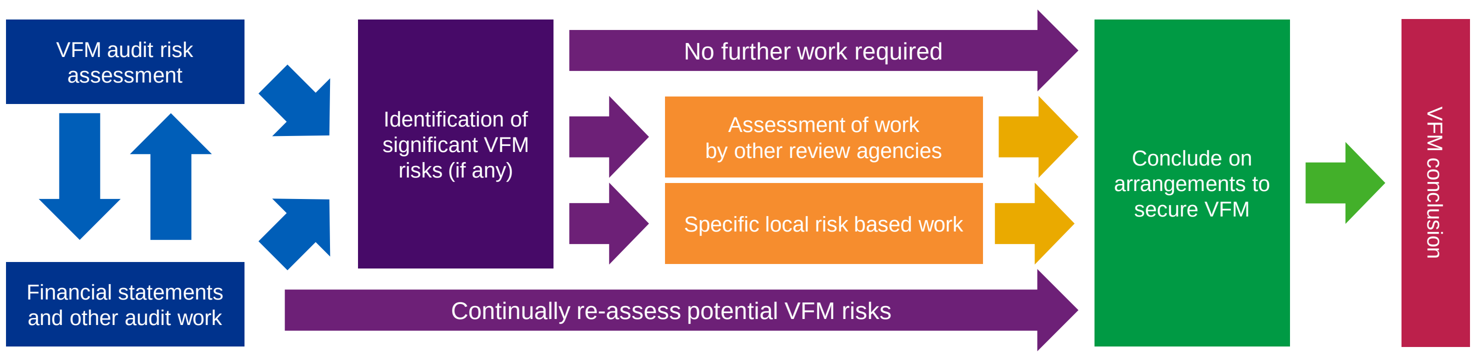
Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/15 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.



Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

VFM sub-criterion	Met
Informed decision making	✓
Sustainable resource deployment	✓
Working with partners and third parties	✓

Specific VFM Risks

We have identified a number of specific VFM risks.

We have undertaken some work to date in response these risks:

- **Better Care Fund**
- **Achievement of the savings plan**

Work completed

In line with the risk-based approach set out on the previous page, and in our *External 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;

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and

— Completed specific local risk based work.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We noted that Ofsted reported that children's services required improvement. The Authority has reflected this in the strategic risk register, which sets out the Authority's plans to address the risk, as well as the progress against those plans. We are therefore satisfied that the Authority has put in place appropriate arrangements to address the recommendations in the Ofsted report and no specific risk based work was required.

We concluded that we needed to carry out additional work for two identified risks. This work is now complete and we report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Risk 1	The Better Care Fund (BCF) represents a significant development for local authorities and their NHS partners and the need to ensure that appropriate governance structures are in place is essential. Without such, there is a significant risk that funds contributed by the Authority will fail to deliver the desired outcomes and benefits (both for the public and for the Authority). One of the key challenges in establishing effective governance arrangements is the need to balance the demands of the Authority and partnering Clinical Commissioning Group. This is relevant to the working with partners and third parties sub-criteria of the VFM conclusion.	**Specific risk based work required:** Yes In 2015/16, the Council entered into pooled budgets with Windsor, Ascot & Maidenhead and Bracknell & Ascot CCGs. We reviewed the minutes of the Health & Wellbeing Board and the financial outturn at year end. Performance against targets were reviewed and discussed on a regular basis, as was the spend against individual projects and the financial performance of the fund overall. We are satisfied that the Council has appropriate arrangements in place to address the identified risk. There is therefore no impact on our VFM conclusion.

Specific VFM Risks (cont.)

We have identified a number of specific VFM risks.

We have undertaken some work to date in response these risks:

- **Better Care Fund**
- **Achievement of the savings plan**

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Risk 2	The Council's Medium Term Financial Plan (MTFP) proposed a net budget requirement of £60.776m in 2015/16, rising to £67.342m by 2019/20. The Authority set a savings target of £5.43m for 2015/16, rising to £5.7m for 2016/17. In particular, the budget reflects freezing of council tax as agreed by Council in February, but with the introduction of an Adult Social Care Precept. This is relevant to the sustainable resource deployment sub-criteria of the VFM conclusion.	**Specific risk based work required:** Yes The Council has a good track record of achieving its saving targets and has detailed plans to identify how current savings will be realised. This is the seventh successive year without rises in council tax. The Council has a 4-year MTFP in place that can be easily remodelled to reflect movements in interest rates, inflation and different council tax rates and the Council's Financial Strategy highlights the financial pressures facing the Council in the longer term. We are satisfied that the Council has appropriate arrangements in place to address the identified risk. There is therefore no impact on our VFM conclusion.

Appendices

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 this recommendation next year.

Priority rating for recommendations					
1	***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.	2	***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.	3	***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	2	**Longevity hedge valuation methodology** The Code of Practice on Local Authority Accounting was updated for 2015/16 to reflect the implementation of accounting standard IFRS13. IFRS13 amends the definition of “fair value” and changes the way that some assets and liabilities need to be valued. The Pension Fund’s longevity hedge is calculated by the actuary, but the methodology has been rolled forward from the previous year and has not been updated to reflect the introduction of IFRS13. **Recommendation** The Pension Fund should instruct the actuary to update their methodology to value the longevity hedge in line with the requirements of IFRS13.	The Pension Fund has now instructed the actuary that the guidance contained within IFRS 13 should be followed when calculating the value of the longevity hedge. **Responsible Officer** Nick Greenwood **Due date** When calculating the values for the 2016/17 Statement of Accounts.

Materiality and reporting of audit differences

For 2015/16 our materiality is £4.6 million for the Authority's accounts. For the Pension Fund it is £25 million.

We have reported all audit differences over £0.2 million for the Authority's accounts and £1.25 million for the Pension Fund, to the Audit & Performance Review Panel.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in February 2016.

Materiality for the Authority's accounts was set at £4.6 million which equates to around 1.6 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit & Performance Review Panel

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit & Performance Review Panel any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.2 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit & Performance Review Panel to assist it in fulfilling its governance responsibilities.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £25 million which is approximately 1.4 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £18.75 million for 2015/16.

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

There is no net impact on the General Fund as a result of the amendments.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit & Performance Review Panel). 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.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

Material misstatements

No material audit misstatements were identified.

Non material audit differences

Our audit identified a small number of non-material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them.

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the ‘Code’) which states that:

“The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor’s recognised supervisory body, or any other body charged with oversight of the auditor’s independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* (‘Public Sector Audit Appointments Ltd Guidance’) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of A*udit 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 & Performance Review Panel.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

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.

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.

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 the Royal Borough of Windsor & Maidenhead and the Royal County of Berkshire Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the Royal Borough of Windsor & Maidenhead and the Royal County of Berkshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix four

Audit Independence

Audit Fees

Our scale fee for the audit of the financial statements of the Authority was £81,803 plus VAT (£109,070 in 2014/15) and for the audit of the financial statements of the Pension Fund was £24,831 plus VAT (£24,831 in 2014/15). These fees were in line with that highlighted within our audit plan agreed by the Audit & Performance Review Panel in February 2016.

As in previous years, we have been requested to carry out additional work on the Pension Fund by the auditors of Slough Borough Council, Wokingham Borough Council, West Berkshire Council and Bracknell Forest Council. The Pension Fund is able to recharge these costs back to the admitted bodies. Our fees for this additional work are £1,133 and are still subject to final determination by Public Sector Audit Appointments.

Our scale fee for certification for the Housing Benefit Subsidy grant claim is £13,439 plus VAT (£15,530 in 2014/15), and fees for other grants and claims (the Teachers' Pension Return and National College for Teaching and Leadership annual grant return) is £8,000 plus VAT (£8,000 in 2014/15).

Non-audit services

We have not provided any non-audit services to the Authority in 2015/16.

kpmg.com/uk