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AUDIT AND PERFORMANCE REVIEW PANEL

WEDNESDAY, 6TH SEPTEMBER, 2017

At 7.00 pm

in the

COUNCIL CHAMBER - TOWN HALL, MAIDENHEAD,

SUPPLEMENTARY AGENDA

PART I

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

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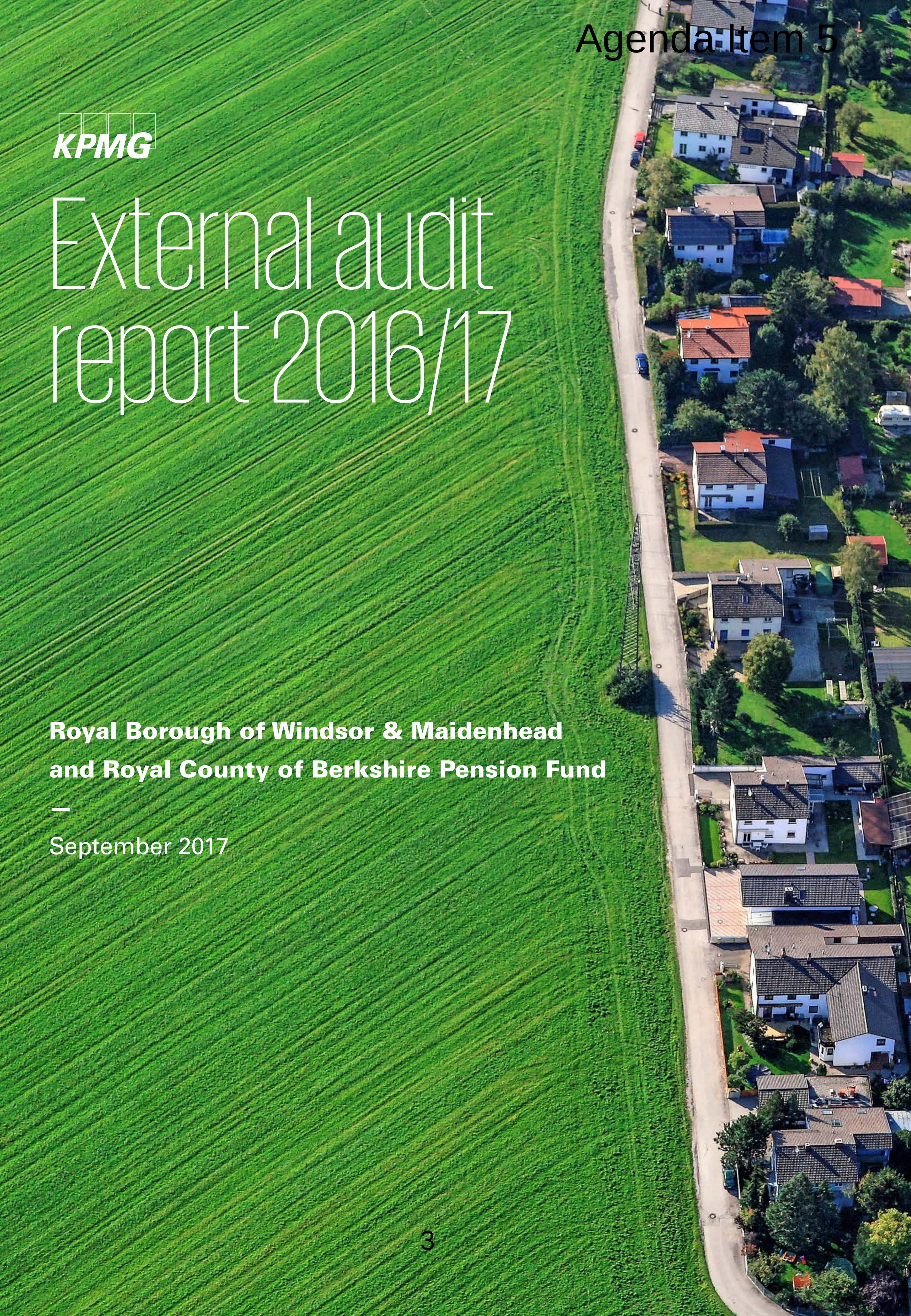

External audit report 2016/17

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

—

September 2017

Summary for Audit & Performance Review Panel

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at the Royal Borough of Windsor & Maidenhead ('the Authority') and the Local Government Pension Scheme it administers ('the Fund').

This report focuses on our on-site work which was completed in June 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 5 – 12.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements by 30 September 2017.

We have identified one corrected audit adjustment to the Authority's financial statements with a total value of £5.3 million and one uncorrected audit adjustment to the Pension Fund financial statements with a total value of £6m. See page 25 for details.

Based on our work, we have raised three recommendations. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter in line with statutory deadlines.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. 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 value for money opinion.

See further details on pages 16 – 20.

Public Interest Report

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not issued a report in 2016-17.

Acknowledgements

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

We ask the Audit & Performance Review Panel to note this report.

The key contacts in relation to our audit are:

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Contents

This report is addressed to the Royal Borough of Windsor & Maidenhead (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

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements and the Fund by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported an overall underspend, resulting in an increase in the General Fund of £0.4m.

Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation (Authority)	**Why is this a risk?** During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the *Local Government Pension Scheme (Administration) Regulations 2013*. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. **Our work to address this risk** We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls. The assumptions used by your actuary have been compared to industry standards, as well as being reviewed by our internal actuarial team. We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have also placed reliance on the work we have completed as part of our audit of the Pension Fund to gain assurance over the pension figures. No issues were identified as a result of the above work.
2. Valuation of the longevity hedge (Pension Fund)	**Why is this a risk?** 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. Therefore, the contract must be kept under regular review to ensure its valuation and disclosure are in accordance with accounting standards. In the prior 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. Further work resulted in an audit difference of £16m to the figure reported in the 2015/16 pension fund financial statements. **Our work to address this risk** 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 has been updated from the prior year, in line with our recommendation, and is a much better reflection of the requirements of accounting standard IFRS13. Review of the updated methodology for valuing the longevity hedge did identify a technical issue relating to a particular discount rate not having been updated since inception. High level calculations indicate the impact is approximately £6m. As this difference is not material, no adjustment to the pension fund accounts has been proposed. Further details are provided in Appendix three.

Significant audit opinion risks	Work performed
3. Valuation of hard to price investments (Pension Fund)	**Why is this a risk?** The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation. In the 2016/17 financial statements, £840 million out of a total of £1,992 million of investments, or 42%, are in this harder to price category. **Our work to address this risk** As part of our testing, we agreed a sample of investment assets prices to third party information and obtained independent confirmation of asset existence. We also reviewed to what extent the Pension Fund challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of the figures. No issues were identified as a result of our testing.

Considerations required by professional standards

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 2016/17* 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 audit focus

We identified one area of audit focus. This is not considered as a significant risk as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Background** CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code): — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards. **What we have done** For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority's general ledger and found no issues to note.

Judgements

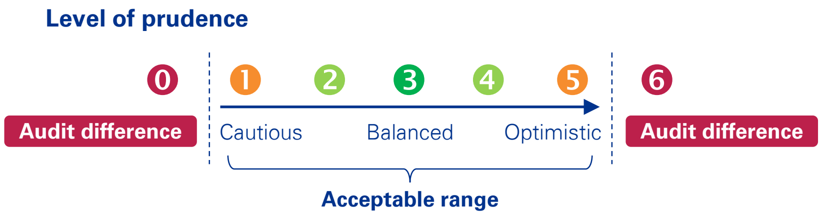
We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0 Audit difference | 1 2 3 4 5 Cautious → Balanced → Optimistic (Acceptable range) | 6 Audit difference

Subjective areas	2016/17	2015/16	Commentary
Provisions	2	2	The overall level of provisions has decreased in the year, mainly due to the utilisation of the established provision to cover redundancy costs. The amounts reversed unused in 2016/17 was £180k, relating to the provision for the clearance of Shurlock Road. 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	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.
Longevity hedge	2	2	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 has been updated from the prior year, in line with our recommendation, and is a much better reflection of the requirements of accounting standard IFRS13.

Judgements (continued)



Subjective areas	2016/17	2015/16	Commentary
Pensions	2	2	The change in pension liability is largely drive by a change in assumptions applied by the actuary, reflecting movements in the changing economic climate. Judgements are complex and numerous. These assumptions have been compared to a PWC review commissioned by the NAO for the use of local authority auditors which covers all actuaries, as well as KPMG's own actuarial specialists. We have reviewed the actuarial assumptions for the current financial year and noted the following: — The discount rate used is considered less prudent than the KPMG expected assumption but consistent with the approach taken last year and within the acceptable tolerance range. This less prudent approach therefore places a lower value on liabilities. In the context of the pension liability, a 0.1% change in the discount rate results in a £9.8m change in the calculated pension liability. — The pension increases (CPI) assumptions are considered more prudent than our expected assumption, however the methodology is reasonable and consistent with prior year. In the context of the pension liability, a 0.1% change in the pension increase assumption results in a £8.9m change in the calculated pension liability. — The salary increase and mortality assumptions were both considered consistent and reasonable. In the context of the pension liability, a 0.1% change in the long term salary increase assumption results in a £1.0m change in the calculated pension liability. Overall, the net discount rate (i.e. the discount rate less CPI inflation) is within our tolerable range despite both individually being towards the extremes of our acceptable ranges. Therefore we consider the assumptions in combination to be reasonable.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit & Performance Review Panel on 6 September.

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 4 for more information on materiality) level for this year's audit was set at £4.6 million. Audit differences below £230k are not considered significant.

We identified one material misstatement, which we set out in Appendix 3. This has been corrected in the final version of the financial statements. We also identified a small number of other adjustments that have been adjusted by management.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2017.

There is no net impact on the General Fund as a result of the audit adjustment identified.

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 2016/17 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Authority's 2016/17 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 report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority. However, there is scope to further develop the content of the narrative report, particularly around the inclusion of non-financial key performance indicators and metrics.

Movements on the general fund 2016/17

£m	Pre-audit	Post-audit	*Ref*[1]
Deficit on the provision of services	(35.1)	(29.8)	*1*
Adjustments between accounting basis and funding basis under Regulations	34.1	28.8	*1*
Transfers from earmarked reserves	1.4	1.4	
Increase in General Fund	**0.4**	**0.4**	

Balance sheet as at 31 March 2017

£m	Pre-audit	Post-audit	*Ref*[1]
Property, plant and equipment	384.9	384.9	
Other long term assets	78.2	83.5	*1*
Current assets	32.1	32.1	
Current liabilities	(40.8)	(40.8)	
Long term liabilities	(389.6)	(389.6)	
Net worth	**64.8**	**70.1**	
General Fund	(5.2)	(5.2)	
Other usable reserves	(16)	(16)	
Unusable reserves	(43.6)	(48.9)	*1*
Total reserves	**(64.8)**	**(70.1)**	

[1] See referenced adjustments in Table 1 in Appendix 3.

The Pension Fund

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Fund's 2016/17 financial statements following approval of the financial statements by the Audit & Performance Review Panel on 6 September.

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.

Our audit did identify a potential audit adjustment relating to the use of a particular discount rate in the longevity hedge model. High level calculations indicate that the potential difference is approximately £6m. As this difference is not material we have not proposed an amendment to the pension fund accounts. Further details are provided in Appendix three.

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 2017. 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.

Fund account as at 31 March 2017

£m	Pre-audit	Post-audit
Opening net assets of the scheme	1,657	1,657
Contributions	108.6	108.6
Benefits	(103.6)	(103.6)
Management expenses	(8.4)	(8.4)
Return on investments	270.8	270.8
Closing net assets of the scheme	**1,924**	**1,924**

Net assets as at 31 March 2017

£m	Pre-audit	Post-audit
Net investments	1,916	1,916
Net current assets	8	8
Net assets of the Fund	**1,924**	**1,924**

Accounts production and audit process

The Accounts and Audit Regulations 2015 introduces a statutory requirement to produce a draft set of financial statements earlier for the year 2017/18. It also shortens the time available for the audit.

Our audit standards (*ISA 260*) require us to communicate our views on 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. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Use of KPMG Central

The Authority continues to use KPMG Central, which allows the team to securely transfer large amounts of data between the Authority and the audit team. KPMG Central aligns to our Prepared By Client list and allows the Authority's finance team to efficiently share requested information.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

The Authority has strengthened its financial reporting by finalising the accounts in a shorter timescale. This puts the Authority in a good position to meet the new 2017/18 deadline.

We consider the Authority's accounting practices to be appropriate.

Completeness of draft accounts

We received a complete set of draft accounts on 8 June 2017, well ahead of the statutory deadline.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in February 2017 which outlines our documentation request. This helps the Authority and the Fund to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Response to audit queries

On average, officers dealt with our audit queries in a timely manner, although we did experience some delays in receiving evidence to support our audit sample testing. Overall, the Authority is in a good position to take on the 2017/18 earlier closedown with no significant concerns.

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.

Prior year recommendations

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

The Authority has implemented all of the recommendations in our ISA 260 Report 2015/16. Appendix 2 provides further details.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Below we have highlighted exceptions in relation to controls:

Payroll

- We noted that the payroll reconciliation performed is prepared and reviewed by the same person and there is no independent review.
- We also identified that the reconciliation performed does not match general ledger balances back to the payroll system, as we would expect. The finance team had to prepare a separate reconciliation specifically for audit purposes to agree the amounts paid per the payroll system to the figures reported as pay costs in the general ledger.

Bank reconciliations

- We tested the December 2016 and March 2017 bank reconciliations. Our testing identified that no bank reconciliation had been prepared for December 2016 and that the reconciliation for the March 2017 Summary Account had not been evidenced as prepared and reviewed.

Further detail and associated recommendations can be found in Appendix 1.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 2017, 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 5 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 relating to the audit of the Authority's 2016/17 financial statements.

Section two

Value for money

Our 2016/17 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 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.

VFM conclusion

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.'

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.

1 Identification of significant VFM risks (if any)

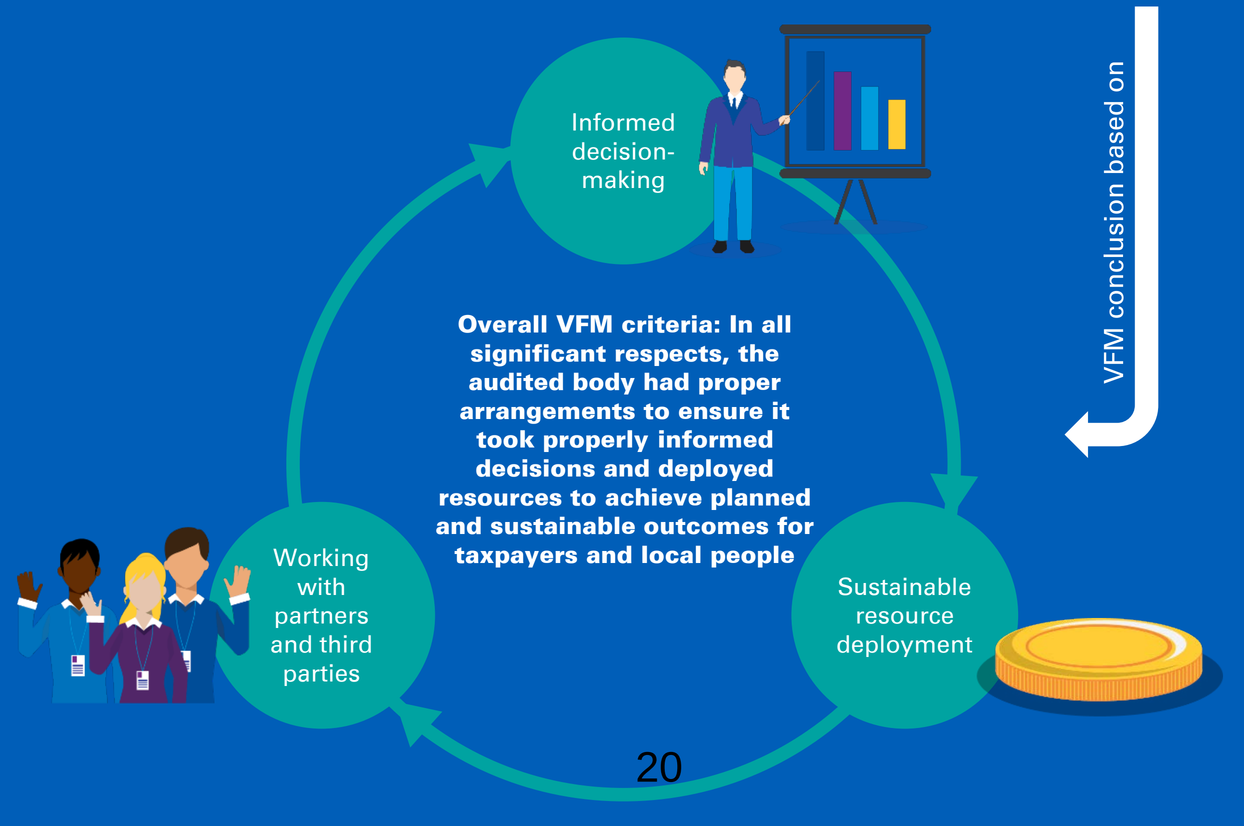
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
1. Transformation programme 2015-18	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, 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.

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; and

— Performed testing over the identified risk areas during our final audit visit.

Further details on the work done and our assessment are provided on the following page.

Significant VFM risks

We have identified one significant VFM risk, as communicated to you in our *2016/17 External Audit Plan*. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Significant VFM risks	Work performed
1. Transformation programme 2015-18	**Why is this a risk?** The Authority has approved a Transformation Programme 2015-18 which is intended to respond to changes in local government funding and create a lean and agile organisation. Successful implementation of the strategy will result in new operating models for services, such as moving Children's Services from local authority provision into a Community Interest Company and introducing technologies to improve 24/7 access to some services. It is essential that there are appropriate governance arrangements in place in relation to the decisions being made as part of the Transformation Programme and that business cases and options appraisals have received sufficient and appropriate scrutiny. It is also important that the financial impacts of service reviews and IT capital spend are reflected in the Medium Term Financial Plan and annual budgets to ensure the financial resilience of the Authority. **Summary of our work** We reviewed the arrangements the Authority has in place to ensure good governance in decision making in relation to the Transformation Programme, including the information provided to Cabinet and Scrutiny Panels for discussion and the level of challenge provided. We checked that there is consistency between the financial impacts estimated as a result of the Transformation Programme and the assumptions built into the MTFP, such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis. 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

Our audit work on the Authority's 2016/17 financial statements has identified a small number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with management. We have also included management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority 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.

Medium priority 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.

Low priority Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary	
Priority	
High	-
Medium	1
Low	2
Total	3

Priority	Issue and recommendation	Management response
Medium priority	**1. Control account reconciliations** Our testing of bank reconciliations throughout the year identified that no bank reconciliation had been prepared for December 2016 and that the reconciliation for the March 2017 Summary Account had not been evidenced as prepared and reviewed. In addition, we noted that the payroll reconciliation performed is prepared and reviewed by the same person and there is no independent review. Reconciliations are a key part of management's controls over day-to-day operations and failing to complete or review reconciliations increases the risk of fraud or error going undetected. **Recommendation** Complete all expected reconciliations on a timely basis and record evidence of preparation and review by appropriate officers.	**Management Response** Accepted **Owner** Robb Stubbs, Deputy Director and Head of Finance **Deadline** Immediate
Low priority	**2. Weak password configuration for Technology Forge** During our review of the underlying IT environment, we noted that passwords for Technology Forge (the Authority's fixed asset system) are set by default to never expire, and there is no minimum complexity requirement. There is therefore a risk that unauthorised individuals could access to the system using default passwords. **Recommendation** Investigate whether password configurations can be amended for Technology Forge to bring them in line with good practice.	**Management Response** Accepted **Owner** Rob Large, Property Services Lead **Deadline** Immediate
Low priority	**3. Reconciliation between list of active users and list of staff leavers** The Council does not undertake a regular reconciliation between a list of leavers from the Council and the list of active users of Technology Forge. We found no issues in our testing, and no recent leavers still hold active accounts, however there is a risk that there may be occasions when the IT team are not aware of a leaver, particularly following the new partnership with Wokingham Borough Council. **Recommendation** Implement a more robust process for ensuring that all leavers are accounted for and removed from the system.	**Management Response** Accepted **Owner** Rob Large, Property Services Lead **Deadline** Immediate

Follow-up of prior year recommendations

In the previous year, we raised one recommendation in relation to the valuation methodology used to calculate the longevity hedge which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has implemented the recommendation and we have reviewed the updated model as part of the 2016/17 audit work on the pension fund. There are no outstanding recommendations remaining from prior years.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. To the right is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	-	-	**-**
Medium	1	1	**0**
Low	-	-	**-**
Total	**1**	**1**	**0**

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in 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.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

The following table sets out the significant audit difference identified by our audit of the Royal Borough of Windsor & Maidenhead's financial statements for the year ended 31 March 2017. This has been corrected in the final version of the financial statements.

Table 1: Adjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Cr Changes in the fair value of investment properties (£5,300)	Dr Adjustments between accounting basis & funding basis under regulations £5,300	Dr Investment Properties £5,300	-	Cr Capital Adjustment Account (£5,300)	Testing identified that one investment property asset had been missed off the asset register as the figure had been uploaded in error as draft rather than final.
	Cr (£5,300)	**Dr £5,300**	**Dr £5,300**	**-**	**Cr (£5,300)**	**Total impact of adjustments**

The were no uncorrected audit differences identified by our audit of the Royal Borough of Windsor & Maidenhead's financial statements for the year ended 31 March 2017

Pension fund: unadjusted audit differences

The following table sets out the uncorrected audit differences identified by our audit of the Fund's financial statements for the year ended 31 March 2017. This difference is individually below our materiality level of £25 million. We have considered the impact of this unadjusted audit differences on the financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences (£'000)

No.	Fund account: Dealings with members	Fund account: Returns on investments	Net assets statement: Investment assets	Net assets statement: Net current assets	Basis of audit difference
1	-	-	Dr Longevity Insurance contract £6,000 Cr Pooled Investments (£6,000)	-	Review of the updated methodology for valuing the longevity hedge by KPMG's actuarial team identified a technical issue relating to a particular discount rate not having been updated since inception. High level calculations suggest the impact is approximately £6m.
	-	**-**	**£0**	**-**	**Total impact of uncorrected audit differences**

Materiality and reporting of audit differences

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 2016/17, presented to you in April 2017.

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 £230k 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 £1.25 million for 2016/17

Appendix 5

Declaration of independence and objectivity

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 Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. 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.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

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 2017, we confirm that there were no relationships between KPMG LLP 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.

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit of the Authority was £81,803 plus VAT *(£81,803 in 2015/16)* and for the audit of the financial statements of the Pension Fund was £24,831 plus VAT *(£24,831 in 2015/16)*, which is consistent with prior year. However, we propose an additional fee of £8,924 due to additional work undertaken in relation to reviewing the updated longevity hedge model and work requested of us by auditors of admitted bodies to the pension fund. See table below for further detail.

Our work on the certification of Housing Benefits (BEN01) is planned for August and September 2017. The planned scale fee for this is £11,648 plus VAT. Planned fees for other grants and claims which do not fall under the PSAA arrangements is £8,000 plus VAT (£8,000 in 2015/16), see further details below.

PSAA fee table		
Component of audit	**2016/17** £	**2015/16** £
Accounts opinion and use of resources work		
PSAA scale fee set in 2016/17	81,803	81,803
Pension Fund - Accounts opinion		
PSAA scale fee set in 2016/17	24,831	24,831
Additional fee in relation to work on behalf of admitted body auditors*	1,574	1,574
Additional fee in relation to review of updated longevity hedge model*	7,350	-
Subtotal	**115,558**	**108,208**
Housing benefits (BEN01) certification work		
PSAA scale fee set in 2016/17 – planned for August and September 2017	11,648	13,439
Total fee for the Authority and Pension Fund set by the PSAA	**127,206**	**121,647**
Other grant certification work Certification of the Teachers' Pension return Certification of the National College of Teaching and Leadership Annual Grant Return	£3,000 £5,000	£3,000 £5,000
Total fee for the Authority	**£135,206**	**£129,647**

All fees are quoted exclusive of VAT.
**These fees are subject to determination by PSAA*

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