



AUDIT AND PERFORMANCE REVIEW PANEL

MONDAY, 30TH JULY, 2018

At 7.00 pm

in the

COUNCIL CHAMBER - TOWN HALL,

SUPPLEMENTARY AGENDA

PART I

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
5.	<u>POST AUDIT STATEMENT OF ACCOUNTS 2017-18</u> Letter of representation.	3 - 16

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Rob Stubbs
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30 July 2018

KPMG LLP
66 Queen Square
Bristol
BS1 4BE

Dear Ian

This representation letter is provided in connection with your audit of the financial statements of the Royal Borough of Windsor & Maidenhead (“the Authority”), for the year ended 31 March 2018, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority’s and the Group’s expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

These financial statements comprise the Expenditure and Funding Analysis, the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, and the Collection Fund and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

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

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

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

- i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority's and the Group's expenditure and income for the year then ended;
- ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year;
- iii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Authority has provided you with:

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

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

7. The Authority confirms the following:

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

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

8. The Authority has disclosed to you all information in relation to:

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

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

- b) allegations of fraud, or suspected fraud, affecting the Authority's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

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

9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
11. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

12. The Authority confirms that:
 - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.
 - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.
13. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) *Employee Benefits*.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.
- c) The Authority agrees with the findings of Barnett Waddingham as the Authority's specialist in evaluating the longevity hedge. In connection with the specialist's study, the Authority provided the specialist with all significant and relevant information of which it is aware. The Authority did not give or cause any instructions to be given to the specialist with respect to the values or amounts derived in an attempt to bias their work, and is not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists

This letter was tabled and agreed at the meeting of the Audit & Performance review Panel on 30 July 2018.

Yours sincerely,

Deputy Director and Head of Finance

Appendix to the Authority Representation Letter of the Royal Borough of Windsor & Maidenhead: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and

responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity;
and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Appendix to the Authority Representation Letter of the Royal Borough of Windsor & Maidenhead: uncorrected differences

Unadjusted audit differences – Authority (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr Cost of Services £1,023k		Cr Cash and cash equivalents £1,023k			There is a balance of £1.02m within cash and cash equivalents that relates to long-standing unreconciled items. The Council needs to identify what these items relate to and determine how they should be treated, including writing them off if necessary
	Dr £1,023k	-	Cr £1,023k	-	-	Total impact of adjustments

GROUP BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group. The net assets of the Group (assets less liabilities) are matched by the reserves. Reserves are reported in two categories. The first category of reserves are usable reserves i.e. those reserves that the Group may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital or repay debt). The second category of reserves are those that the Group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Group Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

RBWM 31 Mar 17 £'000	Assets	Note	RBWM 31 Mar 18 £'000	Group 31 Mar 18 £'000
	Non-current assets			
384,888	Property, Plant and Equipment	14	390,281	390,281
76,611	Investment Properties	16	135,318	135,318
3,317	Intangible Assets	17	2,689	2,689
2,540	Surplus Assets	14	6,503	6,503
266	Long Term Investments	18	259	259
34	Long Term Debtors	18	16	16
775	Investments in Associates	18/54	1,525	1525
468,431			536,591	536,591
	Current assets			
-	Short Term Investments	18	-	-
275	Inventories	19	196	196
30,810	Short Term Debtors	21	31,831	31,831
997	Cash and Cash Equivalents	22	-	-
32,082			32,027	32,027
500,513	Total assets		568,618	568,618
	Liabilities			
	Current Liabilities			
-	Bank Overdraft	22	(643)	(643)
(13,259)	Short Term Borrowing	18	(24,453)	(24,453)
(27,543)	Short Term Creditors	24	(44,386)	(44,386)
(40,802)			(69,482)	(69,482)
	Non current liabilities			
(250)	Long Term Creditors	18	(250)	(250)
(2,684)	Provisions	25	(2,839)	(2,839)
(57,049)	Long Term Borrowing	18	(57,049)	(57,049)
(16,029)	Capital Grants Receipts in Advance	40	(12,914)	(12,914)
(313,583)	Retirement Benefit Obligations	49	(293,703)	(293,703)
-	RBWM share of Associates Liabilities		-	-
(389,595)			(366,755)	(366,755)
70,116	Net assets		132,381	132,381
	Equity			
	Usable Reserves	26		
5,215	Fund Balances and Reserves		7,033	7,033
16,000	Other Reserves		12,937	12,937
	Unusable Reserves	27		
160,065	Capital Adjustment Account		212,380	212,380
204,793	Revaluation Reserve		200,034	200,034
(313,583)	Pensions Reserve		(293,703)	(293,703)
43	Collection Fund Adjustment Account		(4,194)	(4,194)
(2,417)	Accumulated Absences Account		(2,106)	(2,106)
-	RBWM share of Associates Reserves		-	-
70,116			132,381	132,381

GROUP MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Earmarked Reserves	Capital Grants Unapplied	School Revenue Balances	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total RBWM Reserves	RBWM share of Optalis & AfC Reserves	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2017/18										
Balance at 31 March 2017	5,215	5,844	8,625	1,531	-	21,215	48,901	70,116	-	70,116
Total Comprehensive Expenditure and Income (surplus or deficit on the provision of services)	50,351	-	-	-	-	50,351	10,141	60,492	-	60,492
Adjustments between group accounts and authority accounts (Group a/cs) (Note 54.)	2,446	-	-	-	-	2,446	(673)	1,773	-	1,773
Net increase or decrease before transfers (Group a/cs)	52,797	-	-	-	-	52,797	9,468	62,265	-	62,265
Adjustments between accounting basis & funding basis under regulations (Note 9)	(50,183)		(2,659)	-	-	(52,842)	52,842	-		-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	2,614	-	(2,659)	-	-	(45)	62,310	62,265	-	62,265
Transfers to / from Earmarked Reserves (Note 10)	(796)	278	-	(682)	-	(1,200)	1,200	0	-	0
Increase / (Decrease) in Year	1,818	278	(2,659)	(682)	-	(1,245)	63,510	62,265	-	62,265
Balance at 31 March 2018 Carried Forward	7,033	6,122	5,966	849	-	19,970	112,411	132,381	-	132,381

NOTES TO THE ACCOUNTS

26 Usable Reserves

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and the Earmarked Reserves note (Note 10).

27 Unusable Reserves (Group)

	At 31 March 2017 £'000	At 31 March 2018 £'000
Capital Adjustment Account	160,065	212,380
Revaluation Reserve	204,793	200,034
Pensions Reserve	(313,583)	(293,703)
Collection Fund Adjustment Account	43	(4,194)
Accumulated Absences Account	(2,417)	(2,106)
Total Unusable Reserves	48,901	112,411

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 10. provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2016/17		Capital Adjustment Account	2017/18	
£'000	£'000		£'000	£'000
	205,741	Balance at 1 April		160,065
1,827		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		2,054
(11,020)		Charges for depreciation and impairment of noncurrent assets	(11,579)	
(34,040)		Revaluation losses on Property, Plant and Equipment	(718)	
(963)		Amortisation of intangible assets	(864)	
(8,544)		Revenue expenditure funded from capital under statute	(13,345)	
(12,049)		Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		
	(64,789)			(26,506)
	3,854	Adjusting amounts written out of the Revaluation Reserve		5,986
		Capital financing applied in the year:		
0		Use of the Capital Receipts Reserve to finance new capital expenditure	820	
7,316		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	9,092	
4,633		Application of grants to capital financing from the Capital Grants Unapplied Account	7,584	
1,200		Capital expenditure charged against the General Fund	1,200	
(9,927)		Other Adjustments	(8,295)	
	3,222			10,401
	12,037	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		60,380
	160,065	Balance as at 31 March		212,380

NOTES TO THE ACCOUNTS

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment.

The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Revaluation Reserve	2016/17 £'000	2017/18 £'000
Balance at 1 April	130,198	204,793
Upward revaluation of assets	78,450	1,227
Difference between fair value depreciation and historical cost depreciation	(3,832)	(3,844)
Amount written off to the Capital Adjustment Account	(23)	(2,142)
Balance at 31 March	204,793	200,034

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2016/17 £'000	2017/18 £'000
Balance at 1 April	(250,585)	(313,583)
Actuarial gains or losses on pensions assets and liabilities	(55,097)	17,183
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(16,720)	(5,662)
Employer's pensions contributions and direct payments to pensioners payable in the year	8,819	8,359
Balance at 31 March	(313,583)	(293,703)

NOTES TO THE ACCOUNTS

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax /NDR income in the Comprehensive Income and Expenditure Statement as it falls due compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. Following the localisation of business rates, a separate adjustment account for business rates has been created.

Collection Fund - Council Tax

	2016/17 £'000	2017/18 £'000
Balance at 1 April	2,386	2,515
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	129	(984)
Balance at 31 March	2,515	1,531

Collection Fund - Business Rates

	2016/17 £'000	2017/18 £'000
Balance at 1 April	(749)	(2,472)
Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	(1,723)	(3,253)
Balance at 31 March	(2,472)	(5,725)

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2016/17 £'000	2017/18 £'000
Balance at 1 April	(2,781)	(2,417)
Settlement or cancellation of accrual made at the end of the preceding year	2,781	2,417
Amounts accrued at the end of the current year	(2,417)	2,106
Balance at 31 March	(2,417)	2,106

54 The Group has two associates that are material, both of which are equity accounted.

	Optalis Ltd	Achieving for Children (AfC)
Nature of relationship with the Group	Shared owner with Wokingham Borough Council providing Adult Social Care services	Shared owner with The Royal Borough of Kingston Upon Thames and The London Borough of Richmond Upon Thames, a community interest company providing Children's services
Principal place of business / Country of incorporation	UK	UK
Ownership interest / Voting rights held	45%	20%
		AfC joined the group in August 2017

The following is summarised financial information for Optalis and AfC, for the financial year ended 31 March 2018, based on their respective consolidated financial statements.

	Optalis Ltd £'000	AfC £'000
Revenue	44,243	123,067
Profit/(loss) from continuing operations	19	(5,887)
Post-tax profit from discontinued operations	-	(6,388)
Other comprehensive income/expenditure	40	3,274
Total comprehensive income	59	(9,001)
Attributable to non-controlling interest	27	(1,801)
Attributable to investee's shareholders	32	(7,200)
Carrying amount of interest in investee at year end	775	750

The deficit in the AfC accounts represents the shortfall in money set aside to pay for pension rights earned to date. This money will not be paid out until the current members retire and does not represent an immediate cashflow issue. The fund is subject to a triennial valuation and employer contribution rates will be adjusted to ensure that the fund is adequately resourced to pay out retirement benefits due, when they are due. The combination of these two factors means that AfC's Equity is likely to remain in a negative position for the foreseeable future but does not mean that the Company is not a Going Concern.