

# AUDIT AND GOVERNANCE COMMITTEE

MONDAY, 17TH MAY, 2021

At 7.00 pm

by

GREY ROOM - YORK HOUSE, WINDSOR

## SUPPLEMENTARY AGENDA

### PART I

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
5.	<u>ISA260 UPDATE</u> To receive an update on the ISA260.	3 - 76

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**The Royal Borough of Windsor & Maidenhead**  
Final Report to the Audit & Governance Committee on the audit for the  
year ended 31 March 2020

Issued 11 May 2021 for the meeting on 17 May 2021

Deloitte Confidential: Government and Public Services

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# Introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our final report to the Audit and Governance Committee (“the Committee”) of the Royal Borough of Windsor & Maidenhead (the Council, “RBWM”) for the 2019/20 audit.

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### **Status of the audit**

The external audit for both the Council’s statement of accounts and the Royal County of Berkshire Pension Fund (“RCBPF”) are in their final stages at the date of writing this report and are expected to be complete by the time of the meeting. We note the original deadline for completion was 30 November 2020. The timetable for completion was delayed due to the work required on objections and questions, delays in the provision of certain information notably in relation to the Pension Fund, added complexity to valuation work due to the Covid-19 pandemic and disruption to team capacity caused by the pandemic particularly over the November 2020 – January 2021 second lockdown period.

We received a number of objections and questions on the 2019/20 accounts which take considerable time to review and consider. Some of these matters have required further investigation not originally anticipated in the audit plan and, under the NAO (“National Audit Office”) Code of Audit Practice, the process needs to be fully completed ahead of being able to issue the audit certificate, some may also be relevant to our value for money responsibilities.

The completion of the audit to the point of being able to issue the certificate will require resolution of the matters raised under the objections (see page 5 and page 28) and an update to our subsequent events review to the date of signing the opinion.

This report is an audit conclusion report and acts as a follow up to the status report issued to the 16 February 2021 Committee that reported some areas as outstanding. These matters have been addressed satisfactorily.

We note that the Annual Audit Letter will follow this report for issue to members and for publication on the Council’s website.

The scope of our audit was set out within our planning report presented to the Corporate Overview and Scrutiny Panel (“CO&SP”) in May 2020 and we provided an update paper to the then newly formed Audit and Governance Committee meeting in September 2020.

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# Introduction

## The key messages in this report

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### **Status of the audit (continued)**

The matters reported as still outstanding on the Council audit in our February report have been completed.

We have progressed work on the objections but we note that the work on the final letters is still in progress. Completion of this is required ahead of issuing the audit certificate.

The matters below relate to the final stage of the audit and are expected to be completed after issuing this report but before the Committee meeting (or very shortly after the meeting).

- Receipt of the final IAS 19 letter that the Pension Fund audit team issue to the Council audit team.
- Receipt of the signed management representation letter and confirmation regarding post balance sheet events that all have been disclosed to the date of signing.
- Completion of our final subsequent events review updated to the date of signing.
- Audit team completing and submitting the WGA return. The Council is under the threshold above which full procedures are required but a return is still submitted.
- Issuance of the audit opinion and certificate (pending completion of all requirements in relation to the objections) once all matters above have been concluded.

We do not anticipate issues in proceeding through the final stages of audit completion.

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### **Conclusions from our testing**

We expect to issue an unqualified opinion on the Statement of Accounts with an "except for" qualification of our VFM conclusion. The Statement of Accounts audit opinion includes an emphasis of matter in relation to material uncertainties over the property valuation as at 31 March 2020 as a result of the Covid-19 pandemic. This is a common feature of 2019/20 audit opinions where property is held on a revaluation basis. This relates to the operational and investment property held directly by the Council only.

We have raised a number of significant control findings. These are noted from page 20 of this report.

We have set out a summary of misstatements in an appendix to this report. These are noted on page 31 of this report.

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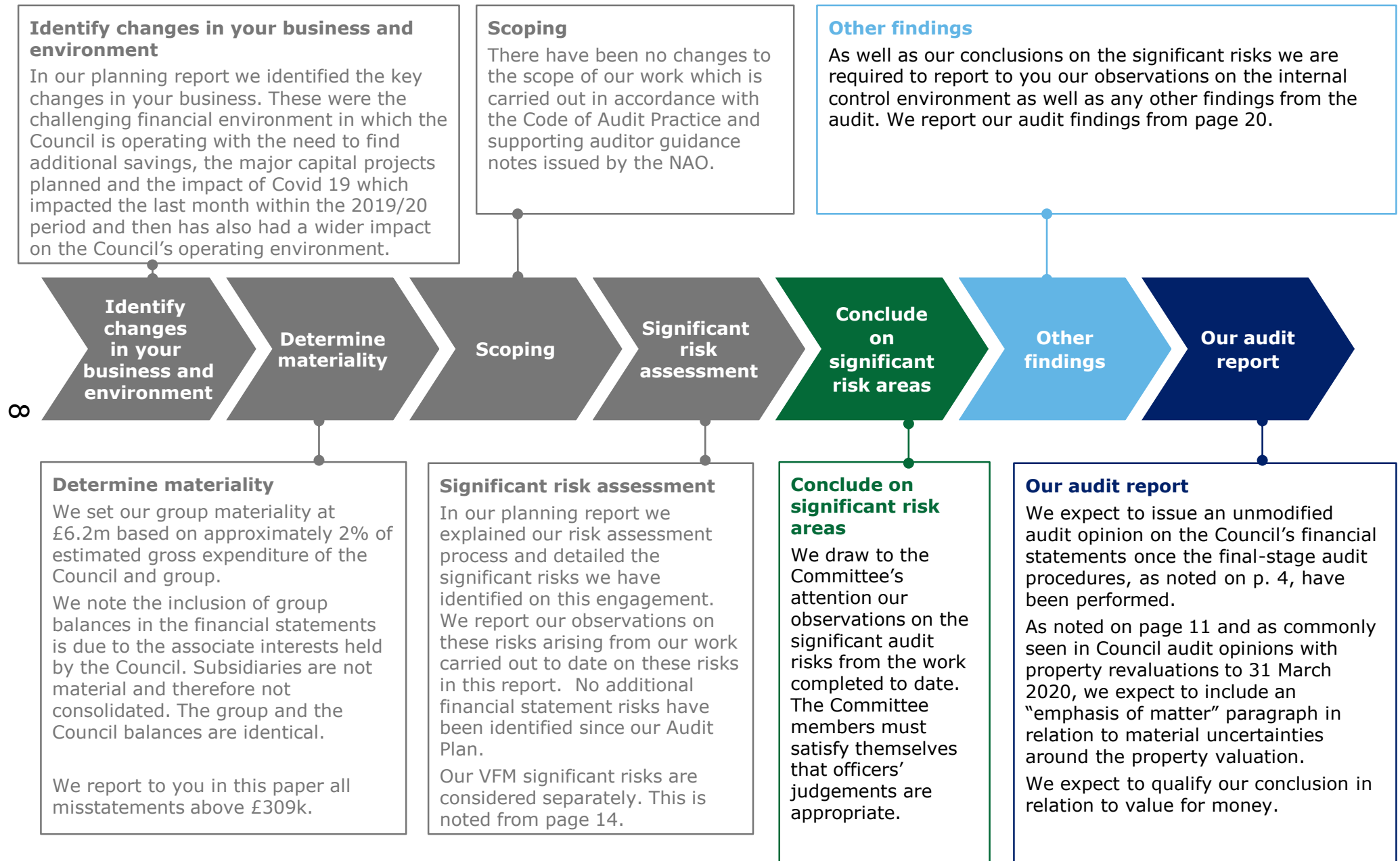
# Introduction

## The key messages in this report (continued)

<b>Status of the audit – Value for Money (“VFM”)</b>	<p>The audit report issued for the 2018/19 Statement of Accounts included an “except for” qualification in the Use of Resources/Value for Money conclusion. We have performed risk assessment procedures for the 2019/20 VFM requirements and set out on pages 14 to 16 those areas we have identified as significant risks along with the linked auditor conclusion. We noted in February that elements of this work is ongoing. This work is now complete. A summary of the risk assessment, our findings and the wording of our audit opinion can be seen from page 14 of this report with the wording of the opinion from page 17. We have again concluded with an “except for” qualification in relation to VFM.</p>
<b>Narrative Report and Annual Governance Statement</b>	<p>Under International Standard on Auditing (ISA) (UK) 720A (revised), the Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, we are required to review the content of the Narrative Report and the Annual Governance Statement to identify material inconsistencies (if any) with the statements that they accompany. We are not required to give an opinion on the Narrative Report and Annual Governance Statement (and as such it is not considered an ‘audited’ statement). We are, however, required to read the Narrative Report and Annual Governance Statement to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by the auditor in the course of performing the audit.</p> <p>As noted in February, an updated Statement of Accounts for the Council was provided on 27 January 2021 including an updated Narrative Report. This document has been reviewed with our feedback taken on board by management. The current draft as final is satisfactory.</p> <p>The Council’s Annual Governance Statement for 2019/20 was issued to the June 2020 CO&amp;SP (“Corporate Overview and Scrutiny Panel”). We noted in February that, based on the finalised outcome of our work on VFM and the objections, if there are further audit recommendations for improving the disclosures within this document, particularly in the “Governance Issues” section and particularly in relation to governance issues identified in the Pension Fund, we would raise these with the relevant Council officers. We have communicated these recommendations to management for inclusion in the final Annual Governance Statement.</p>
<b>Duties as public auditor</b>	<p>We received 22 potential objections from local electors this year. We have reviewed these and we concluded that we would accept 6 as formal objections which related to three main areas. We have written to the electors to communicate our decisions in this regard. Our work investigating those objections continues to be in progress with our draft letters going through the required levels of review that includes external solicitors and PSAA.</p>
<b>Audit certificate</b>	<p>We expect to issue our nil return WGA return (the Council is below the threshold for reporting) at the same time as signing the accounts. Please note issue of the certificate is dependent on conclusion of the matters related to the objections noted above.</p>
<b>Pension Fund</b>	<p>Please see the separate report on the Royal County of Berkshire Pension Fund issued alongside this report.</p>
<b>Audit fee</b>	<p>Now work is complete, we will assess the costs of the additional work that was required and share with officers in due course. The final fee agreed will be reported in the annual audit letter following completion of the audit.</p>

# Our audit explained

## We tailor our audit to your organisation





# Covid 19

## The pandemic and its impact on our audit

**Requirements** CIPFA has issued guidance highlighting the importance of considering the impact of COVID-19 in preparation of the 2019/20 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of COVID-19 and related uncertainties, including their impact on resilience and going concern assessments.

Entity-specific explanations of the current and expected effects of COVID-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.

**Actions** A thorough assessment of the current and potential future effects of the COVID-19 pandemic is required including:

- A detailed analysis across the council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves;
- The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios);
- Any material uncertainties relating to the council's financial position, the financial sustainability of the Council, and the potential requirement for a section 114 notice; and
- The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible

<b>Impact on the Council</b>	<b>Impact on annual report and financial statements</b>	<b>Impact on our audit</b>
<p>We consider the key impacts on the authority such as:</p> <ul style="list-style-type: none"><li>• Interruptions to service provision.</li><li>• Unavailability of personnel.</li><li>• Reductions in certain income streams such as parking and leisure fees and charges.</li><li>• Increases in income from central government funding</li><li>• The closure of facilities and premises.</li></ul>	<p>We consider the impact of the outbreak on the annual report and financial statements, including:</p> <ul style="list-style-type: none"><li>• Principal risk disclosures</li><li>• Impact on property, plant and equipment</li><li>• Valuation of commercial or investment properties</li><li>• Impact on pension fund investment measurement and impairment</li><li>• Financial sustainability assessment</li><li>• Events after the reporting period and relevant disclosures</li><li>• Bad debts provision policy</li><li>• Narrative reporting</li><li>• Impairment of non-current assets</li><li>• Allowance for expected credit losses</li></ul>	<p>We consider the impact on the audit including:</p> <ul style="list-style-type: none"><li>• Resource planning</li><li>• Timetable of the audit</li><li>• Impact on our risk assessment</li><li>• Logistics including meetings with entity personnel.</li></ul>

# Significant risks

## Management override of controls

### **Risk identified**

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for officers to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

### **Deloitte response**

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that the Council's results throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were understood.

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We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### *Significant and unusual transactions*

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

### *Journals*

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

### *Significant accounting judgements and estimates*

We have performed design and implementation testing of the controls in place on accounting estimates.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources. We note that our work on the Council's pension liability and investigations into the objections are in progress.

### **Status of our work and issues identified**

We have concluded our work in relation to this risk satisfactorily.

Our testing of the design and implementation of controls concluded satisfactorily.

# Significant risks (continued)

## Capital expenditure

### **Risk identified**

The Council has a capital programme of £76.9m over the next three years, and incurred £56.6m on property, plant and equipment and £12.1m on revenue expenditure which, for funding purposes, is treated in the same way as capital expenditure (REFCUS) in 2019/20.

Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.

The Council has greater flexibility over the use of revenue resource compared to capital resource. There is also, therefore, an incentive for officers to misclassify revenue expenditure as capital.

### **Deloitte response**

- We tested the design and implementation of controls around the → capitalisation of costs.
- ➔ We selected a sample of capital items (including REFCUS) in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements.

### **Status of our work and issues identified**

We have concluded satisfactorily in this area on substantive testing and there are no adjustments to raise. We have however identified control improvements detailed from page 20.

# Significant risks (continued)

## Valuation of property assets

### Risk identified

The Council is required to hold property assets within Property, Plant and Equipment and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

### Key judgements and our challenge of them

The Council held other land and buildings of £302.6m (PY: £293.9m) and investment property of £96.2m (PY: £131.8m) at 31 March 2020 which are required to be recorded at current or fair value at the balance sheet date.

There is a rolling revaluation programme where a full valuation is performed for different asset groups on a rolling basis that ensures that all properties are valued at least every 5 years. The Council also received advice on any index movements that may impact the valuations of the asset groups not directly revalued in the year.

The Council changed its valuation expert for the 2019/20 Statement of Accounts using Kempton Carr Croft ("KCC") instead of Lambert Smith Hampton ("LSH") used in the prior year. The Council also instructed that all valuations should be as at 31 March 2020 where, in the prior year, they had been performed at different dates and required bridging information to update valuations to the balance sheet date.

Key judgements include:

- Whether there has been a material change since the date of the last valuation; and
- Adjusting valuations for any Covid-19 impacts in particular in relation to commercial investment property

Our audit plan noted that should there be valuation of schools a judgement would be the location and design of modern equivalents. We identified a finding and misstatement in relation to this in the prior year. However, we note that there were no schools subject to a full revaluation in 2019/20.

### Status of our work and issues identified

We have concluded our work in relation to this risk satisfactorily.

Our testing of the design and implementation of controls concluded satisfactorily.

In their report to us, our specialists, Deloitte Real Estate, noted improvements from the prior year exercise performed and a number of findings from our prior year audit had been addressed. We include commentary against the prior year findings and also include some further recommendations for management to consider when designing future valuation exercises. This can be seen from page 20.

### Deloitte response

We tested the design and implementation of key controls in place around the property valuation, including how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation.

We obtained an understanding of the approach adopted to the valuation, including assessing the valuer's qualifications, objectivity and independence and reviewing the methodology used.

We tested a sample of inputs to the valuation.

We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets. This included the population of property not directly revalued in the year.

We tested a sample of revalued assets and reperformed the calculation of the movement to be recorded in the financial statements to check that it was correctly recorded.

On the next page, we note the impact of uncertainties related to Covid-19 on property valuations and the related disclosures.

We also considered the impact of uncertainties relating to the UK's exit from the EU upon property valuations in evaluating the property valuations and related disclosures.

# Significant risks (continued)

## Valuation of property assets – Material Uncertainty due to Covid-19

### Material Uncertainty due to Covid 19

The Council's valuer has included disclosures in relation to a Material Uncertainty due to Covid 19 in their report including the extracts below:

*The World Health Organisation declared Coronavirus (COVID-19) as a Global Pandemic on the 11th March 2020. It has impacted global financial markets, global travel and market activity in many sectors. As at the valuation date, we consider that less weight can be attached to comparable market evidence when informing our opinions of value.*

*The current response to COVID-19 has presented an unprecedented set of circumstances and therefore our valuations are reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.*

*Furthermore, any effect on the value of the asset due to the market uncertainty that may result from the ongoing Brexit negotiations is not known.*

*Due to the uncertainty, a higher degree of caution should be taken when relying upon our valuation than would normally be the case. The Property Consultants - Regulated by RICS future impact that the above factors may have on the real estate market is unknown and we recommend that you keep the valuation of the subject property under frequent review.*

This is a common feature of valuation reports prepared to 31 March 2020.

### Impact on Statement of Accounts

In our February report, we noted an update was required to the Statement of Accounts. In the final version, the Council has disclosed the existence of this material uncertainty in Note 4 within the Statement of Accounts:

*"The response to Covid-19 has presented an unprecedented set of circumstances on which to base valuation judgements at the balance sheet date. The Covid-19 pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the property portfolio at the balance sheet date. Asset valuations at 31 March 2020 are included on the basis of 'material valuation uncertainty' so a higher degree of caution should be attached to these valuations. However, they have been based on the best information available and are therefore a valid basis of valuation for this Statement of Accounts. These include Property, Plant and Equipment and Investment Property valuations. In addition, the continuing uncertainty of Brexit has also been taken into consideration when arriving at property valuations for the financial year."*

### Impact on the audit opinion

An "emphasis of matter" paragraph is then required to be included in our audit opinion to draw attention to management's disclosure:

***Emphasis of matter - material uncertainty related to property valuation***  
*We draw attention to note 4, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Council's property portfolio.*

*As noted by the Council's external valuer, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter.*

# Other matters

## Pension liability

### Background

The Council participates in the fund it administers, the Royal County of Berkshire Pension Fund ("RCBPF").

Please see separate pension fund report for an update on the direct audit work on the pension scheme.

As a participating employer, the Council's accounts include an RBWM specific net pension liability which is determined for the Council by the actuary Barnett Waddingham. Our actuarial team review the assumptions applied to calculate the RBWM specific liability. Certain procedures are also performed by the pension audit team to test the liability and the associated assets at Berkshire Pension fund level.

### Deloitte response

We use our actuarial specialists and our pension fund team to inform our work in this area.

Our procedures to address this risk, which are in progress, are as follows.

- Obtaining a copy of the actuarial report for the Council Pension Fund produced by Barnett Waddingham, the scheme actuary, and agreeing in the disclosures to notes in the accounts.
- Assessing the independence and expertise of the actuary supporting the basis of reliance upon their work.
- Reviewing and challenging the assumptions made by Barnett Waddingham, including benchmarking.
- Assessing the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.
- Reviewing and challenging the calculation of the impact of the McCloud and Goodwin cases on pension liabilities.
- Performing substantive analytical procedures on movements.
- Reviewing the disclosures within the accounts against the Code.

### Status of our work and issues identified

The work performed by our actuarial specialists in relation to the Council only actuary report has concluded satisfactorily.

In regard to the receipt of a final IAS 19 letter from the Berkshire Pension Fund team, this work is still in progress and is expected to be concluded by the time of the Audit and Governance Committee meeting.

We note the prior year uncorrected misstatement in relation to McCloud and reported on 18 November 2019 to the CO&SP has been corrected in the current year with an adjustment to value the liability at 31 March 2020 including the McCloud impact.

# Arrangements to secure economy, effectiveness and efficiency from the Authority's use of resources

## Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work. During the audit process, we identified significant risks as set out on the following slides along with our response.

## Our risk assessment and audit work included:

- Reviewing the Council's draft Narrative Report, updated Annual Governance Statement and relevant Council papers and minutes.
- Considering matters arising from the Pension Fund audit. Note, the main Statement of Accounts opinion is where all VFM related matters are reported.
- Enquiries with senior officers.
- Reviewing other documentation of the Council including budget setting reports, financial and operational performance monitoring reports.
- Reviewing reports issued by internal audit.
- Reviewing reports issued by regulators such as Ofsted.
- Review of effectiveness of working with partners and third parties including subsidiary entities.
- Reviewing reports into governance arrangements at the Council produced by other experts. In particular, for RBWM, this included the CIPFA report issued in July 2020 and the report into governance at the Pension Fund (arising from an audit recommendation in the prior year) issued in July 2020.
- Understanding the arrangements in potential areas of significant risk – in particular the planning of the Council's finances.
- Evaluation of progress against weaknesses identified in the prior year and assessing the extent to which management have implemented the recommendations raised.
- Considering matters identified by the National Audit Office as potential value for money risks for Councils for 2019/20.
- Considering local and sector developments and how they impact on the Council.
- Considering the impact of any objections raised on the accounts to our value for money conclusion.

## Status of our work and issues identified

We have concluded our work in relation to Value for Money.

We plan to report a qualified, "except for" conclusion.

Our conclusion was the matters raised within the objections to the accounts did not give rise to any further significant VFM risks leading to additional exceptions needed in the VFM conclusion within the audit opinion.

Please see the following pages for a summary of our risk assessment and findings and the wording of our conclusion.

# Significant VFM risks

## Risk 1: Sustainable resource deployment: weaknesses in arrangements for planning finances

Risk details	Procedures Performed	Status
<p>We have identified a significant risk that there is a significant weakness in the authority's arrangements for planning its finances effectively to support the delivery of strategic priorities and maintenance of its statutory functions. We identified this risk because:</p> <ul style="list-style-type: none"><li>we have seen that in 2019/20 the Authority overspent on its revenue budget by £2.4m excluding the impact of Covid 19. Covid 19 costs added a further £1.8m of expenditure but this was matched by extra funding from central government specifically for Covid 19 costs;</li><li>weaknesses were identified in the prior year, through our audit, and through an external review by CIPFA, in respect of medium term financial planning arrangements, the capital programme, the treasury management strategy, budget setting and budget monitoring against actual performance; and</li><li>the level of the Authority's useable reserves is at the lower end of the range when benchmarked against other similar authorities.</li><li>weaknesses were identified through the CIPFA report on financial governance relevant to decision making processes noting in particular that the 2019/20 budget set in February 2019, and the Treasury Management strategy did not comply with the relevant guidance and legislation governing these documents.</li></ul>	<p>We have:</p> <ul style="list-style-type: none"><li>Reviewed the report issued by CIPFA, the Authority's action plan, and progress against the action plan and assessed whether significant weaknesses in applicable arrangements remained in 2019/20;</li><li>Reviewed the Authority's medium term financial plan and budget and other significant relevant documents used by the Authority in planning its finances, and understand the arrangements involved in their preparation.</li></ul>	<p>Exception identified.</p> <p>See exception [1] in the audit opinion disclosed from page 17 for the wording of our exception.</p>



# Significant VFM risks

## Risk 2: Informed decision making: weaknesses in arrangements for reliable and timely financial reporting

Risk details	Procedures Performed	Status
<p>We have identified a significant risk that there is a significant weakness in the authority's arrangements with respect to reliable and timely financial reporting that supports the delivery of strategic priorities. We identified this risk because:</p> <ul style="list-style-type: none"><li>material errors were identified through our audit of both the Authority and the Pension Fund in the prior year which had not been detected by Officers of the Authority in the draft Statement of accounts; and</li></ul> <p>the quality and timeliness of information presented for the audit in the prior year was below what we would expect of an Authority, we raised a number of significant financial control weaknesses through the audit, and the authority did not meet the deadline for approval of the Statement of Accounts in 2018/19.</p>	<p>We have:</p> <ul style="list-style-type: none"><li>Reviewed the report issued by CIPFA, the Authority's action plan, and progress against the action plan and assessed whether significant weaknesses in applicable arrangements remained in 2019/20;</li><li>Considered whether the authority has implemented our recommendations from the prior year audit;</li><li>Considered the findings from the 2019/20 audit of the Statement of Accounts for the Authority and the Pension Fund to consider whether there was evidence of material weaknesses; and</li><li>Considered the quality and timeliness of the information presented by Officers to support the balances in the Statement of Accounts.</li></ul>	<p>Exception identified.</p> <p>See exception [2] in the audit opinion disclosed from page 17 for the wording of our exception.</p>

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# Significant VFM risks

## Risk 3: Informed decision making: weaknesses in governance arrangements

Risk details	Procedures Performed	Status
<p>We have identified a significant risk that there is a significant weakness in the authority's arrangements for acting in the public interest through demonstrating and applying the principles and values of sound governance. We identified this risk because our prior year conclusion:</p> <ul style="list-style-type: none"> <li>referred to the Authority's Annual Governance Statement which identified weaknesses in respect of inadequate resourcing of key governance functions and the development of an organisational culture where individuals did not feel empowered or encouraged to speak out when issues arose; identified weaknesses in the annual review of the effectiveness of the governance framework, including the system of internal control; and</li> <li>identified weaknesses in the arrangements for the governance and internal control of the Royal County of Berkshire Pension Fund. Our prior year reporting recommended the commissioning of a governance review of the pension fund to be performed by an independent expert. The Council commissioned this review in February 2020 and the report was released in July 2020. A review of this report and the recommendations arising formed part of our 2019/20 procedures.</li> </ul>	<p>We have:</p> <ul style="list-style-type: none"> <li>Reviewed the Authority's Annual Governance Statement for 2019/20, considered the arrangements for its preparation, and considered any relevant significant weaknesses identified in that statement;</li> <li>Made enquiries of Senior Officers to understand changes in the resourcing of key governance functions and the development of the organisational culture;</li> <li>Documented and considered the Authority's arrangements for review of the effectiveness of its governance framework and the outcome from that review; and</li> <li>Considered the findings from our audit of the Pension Fund and the level of implementation of our relevant control recommendations raised in the prior year.</li> <li>Considered the findings and recommendations of the report commissioned by the authority on pension governance and control arrangements.</li> </ul>	<p>Exception identified.</p> <p>See exception [3] in the audit opinion disclosed from page 17 for the wording of our exception.</p>

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# Wording of the Audit Opinion – VFM Section

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## REPORT ON OTHER LEGAL AND REGULATORY MATTERS

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### *Report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources*

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#### **Qualified Conclusion:**

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, with the exception of the matters reported in the basis for qualified conclusion paragraphs below, we are satisfied that, in all significant respects, The Royal Borough of Windsor of Maidenhead put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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#### ***Basis for qualified conclusion***

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##### **1. Sustainable resource deployment: weaknesses in arrangements for planning finances**

We have concluded that there were significant weaknesses in the authority's arrangements in the year to 31 March 2020 with respect to planning its finances effectively to support the delivery of strategic priorities and maintaining its statutory functions.

Weaknesses were identified by the Authority; by CIPFA through an independent review of financial governance arrangements; and through our prior year audit. We identified weaknesses in respect of the Council's arrangements for understanding and using appropriate and reliable financial information to monitor performance and to support informed decision making and financial planning. Whilst the authority has an action plan in place to address these matters and is progressing that action plan, not all areas of weakness had been addressed in the year to 31 March 2020 and weaknesses in these arrangements were present for at least part of the year. In particular, weaknesses were identified in the prior year (2018/19) in relation to the arrangements for the preparation of the 2019/20 budget that was issued in February 2019. Whilst improvements in the budgetary arrangements were made in 2019/20 and are evident in the 2020/21 budget approved in February 2020, the weaknesses identified in relation to the 2019/20 budget are relevant to the 2019/20 year as that budget was in place and monitored against by the authority throughout the 2019/20 period. Other weaknesses have been identified in the Annual Governance Statement linked to arrangements regarding the medium term financial plan, the treasury management strategy, the capital strategy and the capital programme's performance against its plan.

The weaknesses in the arrangements in this area, contributed to overspends against budget in the Council's outturn results. As reported in the Statement of Accounts and the Annual Governance Statement ("AGS"), the Council's 2019/20 financial results show a total net overspend of £4.2m against the 2019/20 budget approved in February 2019. £1.8m of additional expenditure has been attributed to Covid-19 and was matched with funding from central government support before the year end. The remaining deficit of £2.4m was funded from general fund reserves. The general fund balance as at 1 April 2019 was £7.8m and the approved 2019/20 minimum level of reserves is £5.8m. Capital spend in the year was £68.9m against a revised budget from November 2019 of £82.9m. The accumulated slippage of the capital programme into future years stood at £32.6m as at 31 March 2020.

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# Wording of the Audit Opinion – VFM Section

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## ***Basis for qualified conclusion***

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### **2. Informed decision making: weaknesses in arrangements for reliable and timely financial reporting and maintaining a sound system of internal control.**

We have concluded that there were significant weaknesses in the authority's arrangements in the year to 31 March 2020 in relation to reliable and timely financial reporting and maintaining a sound system of internal control. We note that improvements have been made regarding the quality and timeliness of information provided for the audit of the Authority's Statement of Accounts for 2019/20. However, we also note the following matters which we consider represented significant weaknesses in arrangements:

- a number of our significant control recommendations made following the prior year audit had not yet been implemented by the Authority and the Pension Fund. The current year audit also identified deficiencies in internal control; and
- whilst the Authority has an action plan in place to respond to the findings of the CIPFA Financial Governance Review, and has taken action in accordance with that plan, not all recommendations have yet been implemented during the 2019/20 period and some weaknesses in arrangements in relation to reliable and timely financial reporting were present in that year. A review into financial management continued to be underway through 2020/21 and is focused on key areas of financial reporting that impact decision making and require improvement including prudent, accurate and timely performance monitoring and forecasting, in-year capital monitoring, the accounting reconciliations process, reporting to support debt management and the reporting information provided in relation to the performance of the Collection Fund.

### **3. Informed decision making: weaknesses in governance arrangements**

We have concluded that there were significant weakness in both the Council's and the Pension Fund's arrangements in the year to 31 March 2020 with respect to its arrangements for acting in the public interest through demonstrating and applying the principles and values of sound governance. We note the following matters which we consider to represent significant weaknesses in arrangements:

- Following our recommendation to conduct a review raised as part of the 2018/19 audit, the resulting report commissioned into pensions governance noted in particular a disconnect between the pension fund and the council with no regular reporting. The report also made several recommendations that highlighted weaknesses in the arrangements in place through 2019/20 specifically relating to the size and membership of the relevant Boards, Panels and Groups; the level of involvement and training of individuals within those governance structures; and the adequacy of recording and reporting of discussions and decisions made within those governance structures. The report also noted that the composition and training of the Pensions Advisory Panel needed to be reviewed and changed including publication of papers and minutes; that the communication with the custodian bodies overseeing the assets needed to be improved; and that independent advisers are engaged appropriately as required.
- The Council's Annual Governance Statement draws attention to the following weaknesses in governance arrangements that are not otherwise mentioned in the exceptions reported here: a lack of organisational capacity in key areas; a lack of clarity from officers and members with regard to their roles, responsibilities and the associated required procedures; a culture within the organisation that did not encourage people to speak out or properly exercise their roles as advisors; and non-compliance with public sector network requirements due to the significant investment needed in IT infrastructure and ongoing work on the IT strategy and implementation. The AGS notes areas of weakness in relation to financial governance including a lack of robustness of challenge regarding business cases and their benefits ensuring these are consistently presented, weaknesses in procurement and contract management. The AGS notes steps taken to address these findings in 2019/20 including increasing capacity in key roles, additional training and changing the management structure but these measures only impacted part of the year and further training is required. These represent significant weaknesses in the Council's governance arrangements.

# Wording of the Audit Opinion – VFM Section

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***Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

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The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether The Royal Borough of Windsor and Maidenhead had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether The Royal Borough of Windsor and Maidenhead put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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# Control observations

During the course of our prior year audit, we identified internal control findings which we reported to the CO&SP. In the tables below we include the detail of our prior year control findings along with an update to our work in relation to these control findings as performed in the 2019/20 audit.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Area	2018/19 Observation	Current Year Update
<p>22</p> <p><b>Quality of draft financial statements</b></p>	<p>The initial draft financial statements which were published for public inspection and presented for audit were not of the expected standard. Issues noted included:</p> <ul style="list-style-type: none"> <li>• Findings regarding the compliance of the narrative report and annual governance statement with the CIPFA code</li> <li>• The non-receipt of a completed CIPFA disclosure checklist accompanying the financial statements subject to audit</li> <li>• Inconsistencies between notes in the financial statements;</li> <li>• Accounting policies not updated for the adoption of IFRS 9 and IFRS 15;</li> <li>• Accounts disclosures not updated for the adoption of IFRS 9;</li> <li>• Accounts disclosures not updated for the adoption of IFRS 15;</li> <li>• Differences between primary statements and notes; and</li> <li>• Differences noted during our call and cast process</li> </ul> <p>Together these indicate weaknesses in the financial reporting and close process. We recommend the Council reviews the year-end reporting and close process, including:</p> <ul style="list-style-type: none"> <li>• preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in the year and for the disclosure requirements for any new or changed activities of the Council;</li> <li>• documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts;</li> <li>• review of the completed CIPFA disclosure checklist;</li> <li>• documented and reviewed internal checks of internal consistency;</li> <li>• completion of the CIPFA “pre-audit checks on draft year-end accounts” checklist; and</li> <li>• documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers.</li> </ul>	<p>The first draft of the Council Statement of Accounts published for the public inspection period on 3 August 2020 demonstrated substantial improvement from the initial draft provided as part of the prior year audit.</p> <p>This included taking on board several of the recommendations raised as part in the prior year.</p> <p>As noted earlier in the report, we were provided with an updated set of accounts on 27 January 2021 on which some further minor points were raised. This version is satisfactory.</p> <p><b>Conclusion: Closed</b></p>

We note the final amended report is satisfactory.

# Control observations (continued)

Area	2018/19 Observation	Current Year Update
<b>New accounting standards – IFRS 9 and 15</b>	<p>Whilst we understand that officers discussed the impact of adoption of the new standards during the closure process, they did not prepare accounting papers on the transition to IFRS 9 and 15. The initial draft accounts were not updated for changes in disclosure requirements from IFRS 9 and 15. Although our work on IFRS 9 and 15 to date has not identified any material changes to the financial statements, we highlight that because the new standards have been discussed as a one off exercise, new requirements will not have been embedded in the Council's underlying systems, processes and controls. This presents a risk that new contracts or transaction may give rise to unanticipated impacts in future, or not be detected.</p> <p>We recommend that the Council reviews how to update its day to day accounting processes, including any necessary system and control changes, to reflect the requirements of IFRS 9 and 15, and the process to be followed in assessing new and unusual transactions.</p>	<p>These standards were new for 2018/19 but were in the second year of implementation in 2019/20. The Statement of Accounts were prepared on a IFRS 9 / 15 basis. We have not identified issues in relation to this in our audit work to date.</p> <p>There were no further new IFRS standards applicable in the year (see next point regarding IFRS 16).</p> <p><b>Conclusion: Closed</b></p>
<b>Preparation for IFRS 16</b> 23	<p>The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most Councils than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met.</p> <p>We recommend that the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems and would expect an accounting paper to be prepared for the purposes of 2019/20 audit.</p>	<p>As a result of Covid 19, the implementation of IFRS 16 has been delayed to 2022/23 for the Public Sector. Whilst this point remains open and will need Council attention in due course, this does not impact the 2019/20 financial statements and the related disclosure covering IFRS standards issued but not yet implemented can be reported in the same manner as 2018/19. Management have informed us preparations are being made for the introduction of this standard but this work has not been reviewed by audit.</p> <p><b>Conclusion: Ongoing</b> <b>Management Response:</b> Work has been carried out to identify assets that are impacted by IFRS16. This work is ongoing and will be concluded in time for 2022/23 implementation.</p>
<b>Management override of controls</b>	<p>During our testing of the design and implementation of controls relating to management override and specifically relating to budget transfers, we noted that a transfer of £250k from one budget to another was not accompanied by a virement form.</p> <p>While the transfer was discussed and approved at Cabinet meeting we suggest that all such transfers be accompanied by a virement form, as set out in standard operating procedures relating to budget transfers.</p>	<p>We tested a budget transfer in 2019/20 of £600k and noted the email communication request and virement form as well as the discussion and approval at the May 2019 Cabinet meeting. We have not tested every virement in the year but it is our understanding that this has been an area of focus for the Council as it was also raised in the CIPFA report.</p> <p><b>Conclusion: Closed</b></p>



# Control observations (continued)

Area	2018/19 Observation	Current Year Update
<b>Accounting for acquisitions</b>	<p>The Council has an accounting policy to apply a full year of depreciation in the year of disposal and no depreciation in the year of acquisition, primarily for the reason that the fixed asset register is only updated at the end of year.</p> <p>This practice is not uncommon in the sector and does not have a significant impact on the carrying amount of assets where assets are acquired and disposed relatively evenly across the year.</p> <p>Performing a high level calculation based on the fixed asset note for the current year, assuming all additions take place on day one of the year, fixed assets are potentially overstated by £1m. As stated above, this is not a material impact.</p> <p>We recommend that officers implements a process whereby the depreciation charge is retrospectively calculated based on the actual date of acquisition or disposal.</p>	<p>This recommendation has not been adopted by management due to it not being material.</p> <p>The accounting for acquisitions has remained the same as the prior year and we do not consider this to be a material matter.</p> <p><b>Conclusion: Closed</b>  <b>Management Response:</b> Technology Forge who provide the asset register software were contacted during 2020/21 and a mechanism exists to account for depreciation on newly acquired assets. Deloitte have confirmed that this is not a material matter.</p>
<b>Valuation of properties</b> 24	<p>The valuation of properties is dependent on officers' assumptions (or input from officers in forming assumptions) including the location and functional obsolescence of the existing properties and information provided by officers, including the number, type and condition of council dwellings and the floor space of schools. A paper was not prepared which set out the key assumptions, and officer's view on whether the revaluation assumptions are appropriate.</p> <p>We were also not able to identify a documented internal control relating to the review by officers of the valuation report received from Lambert Hampton Smith. We recommend that a paper should be prepared and set out the review of key assumptions, and officer's view on why the revaluation assumptions are appropriate.</p>	<p>The Council adopted many of our recommendations in relation to property valuations leading to an improved process and fewer issues raised in relation to the audit.</p> <p>As stated in our prior year report, we involved our DRE specialist team at the scoping stage of the valuation exercise to mitigate issues arising late in the process.</p> <p>The Deloitte Real Estate expert has raised some recommendations to consider for future exercises, see next page for details.</p> <p><b>Conclusion: Ongoing</b></p>



# Control observations (continued)

Area	2018/19 Observation	Current Year Update
<b>Improvements to the valuation exercise</b>	<p>Whilst overall we have concluded that the properties held at revalued amounts are not materially misstated, several insights and improvements for the future have been identified. We have fed back a detailed list to management and include a summary of the more significant items below:</p> <ul style="list-style-type: none"> <li>• Reports provided to Lambert Smith Hampton and received back from them should include clear categorisation of assets, including whether leasehold or freehold, and a clear statement of the date of valuation to ensure the correct methodology and assumptions have been applied and that this can easily tracked through the working papers.</li> <li>• Valuations required for RBWM Property Company Limited should be commissioned and conducted under separate instructions to the main Council valuation exercise as their assets do not form part of the Council's accounts.</li> <li>• The Depreciated Replacement Cost ("DRC") method of valuation is applicable to specialised assets rarely sold or traded such as schools. Only 1 such item, Riverside Primary, was valued for 2018/19. Findings raised included that the valuation should reflect Modern Equivalent Asset considerations and that valuations should be on an "Instant Build" basis (i.e. not including finance costs). These were weaknesses in the valuation method however they were not material to the overall valuation because only one school was valued this year. These findings could have a greater impact in future years when more of these specialised assets are expected to be in the scope of the review so should be addressed as part of scoping next year's exercise.</li> <li>• Where an asset has been valued at an earlier point in the year, explicit commentary should be included to update the valuation to the balance sheet date.</li> <li>• The impact of Brexit is not noted in the LSH report. As an area of uncertainty we would expect to see commentary on this matter even where the potential impact cannot be fully quantified.</li> <li>• Whilst the Council uses a specialist valuer to inform the process here, it is important that the Council retains responsibility for reviewing the assumptions and confirming their appropriateness and that this is documented appropriately in a management paper.</li> </ul> <p>We also note that the Council appraisal of properties not directly valued in order to consider whether there is a risk that they are materially misstated was provided late in the process. We would expect this to be prepared contemporaneously with the preparation of the valuation and the preparation of the draft statement of accounts. We propose that the support for the valuation, both the directly valued areas of the portfolio and the appraisal of the assets not in scope for that year, are provided prior to the start of the audit.</p> <p>We will also seek to be involved, with our DRE specialist team, at the scoping stage of the valuation exercise to mitigate issues arising later in the process next year.</p>	<p>Our report from the DRE specialist noted the following recommendations:</p> <p>In relation to the DRC method, there were a limited number of low value assets measured on this basis in scope for this year's valuation. This remains an area for management to keep aware of in future valuations ensuring that, where these are undertaken on a DRC basis, the assumptions for those assets are clearly documented.</p> <p>Our review found some variances in certain data points (information taken from national and local property indices) used by the Council's valuer. This was not a case of error but a subsequent update to certain data as at 31 March 2020 post issue of the valuer's report. The Council should maintain liaison with the valuer to the date of issue of the Statement of Accounts to check if any relevant indices have moved. Overall, the impact of this on the 2019/20 audit was not material.</p> <p>Some minor improvements can be made to the valuation reports from the Council's expert for example, under the Red Book, reports should include overall total values of the assets valued. A list of these recommendations will be passed to management.</p> <p>Overall, the valuation exercise did not present with as many issues in the prior year. Preparation of the valuations to the balance sheet date of 31 March particularly assisted in this regard.</p> <p><b>Conclusion: Ongoing Management Response:</b> The Council's Property team continue to ensure that DRC calculations provided by external valuers are in line with the RICS red book &amp; the accounting code. No issues were raised in 2019/20.</p>



# Control observations (continued)

Area	2018/19 Observation	Current Year Update
<b>Accounting for capital expenditure</b>	<p>During our testing of the capital commitments disclosure we noted that £6.4m of expenditure relating to the Braywick Leisure Centre was incorrectly included in the capital commitment disclosures at year end. Officers have subsequently adjusted the accounts disclosure for this misstatement. No further change was required as these amounts have been included in capital additions for the year.</p> <p>We understand that officers use a March to February period for the purposes of accounting for capital items. We suggest that a review is performed at year end to consider the impact of any expenditure incurred in the final month of the financial year for its impact on operating expenditure, property, plant and equipment and the councils commitments disclosures.</p>	<p>We noted in our February paper that our work on the disclosure notes was still in progress based on the most recently received statement of accounts.</p> <p>We noted that we would update management and the Committee in due course with any findings arising from this work.</p> <p>We have no further material findings to raise in this regard.</p> <p><b>Conclusion: Closed</b></p>
<b>Bank and cash</b>	<p>During the our testing of bank and cash we noted a balance of £984k relating to long-outstanding reconciling items for which we were not provided any support.</p> <p>This was identified in the prior year audit and is still under investigation by RBWM's internal audit function.</p> <p>We recommend that this investigation is finalised and the reconciling items cleared as soon as possible. We also recommend that a review of the controls relating to bank reconciliations is undertaken in order to avoid a recurrence of this.</p>	<p>This investigation proceeded but was not concluded until after the closing of the 2019/20 period. This difference in the bank reconciliation therefore remains in the 31 March 2020 financial position. It is reported as an uncorrected misstatement as it was in our prior year ISA 260 (and as it was by our predecessor audit for the 2017/18 audit). We understand from management this has been corrected in the 2020/21 period but have not audited this posting. It was reported to Council in June 2020.</p> <p><b>Conclusion: Ongoing</b>  <b>Management Response:</b> Corrected in 2020/21.</p>
<b>Elimination of internal recharges</b>	<p>Internal recharges should be eliminated from the presentation of income and expenditure in the Comprehensive Income and Expenditure Statement. Our testing identified an amount of recharges of £32.7m (2017/18: £25.4m) shown gross in income and expenditure. To correct for this, income and expenditure both needed to be reduced by £32.7m (2017/18: £25.4m). We recommend that, going forward, internal recharges are eliminated in the Comprehensive Income and Expenditure Statement before being subject to audit.</p>	<p>This finding was addressed by management as part of the first draft version of the accounts. This issue did not recur in the 2019/20 Statement of Accounts.</p> <p><b>Conclusion: Closed</b></p>
<b>Pension Asset investments</b>	<p>We recommend that the Council performs a review of the arrangements around pension asset investment decision making, monitoring and reporting of the valuation of those investments. This should include an historic review of the arrangements with respect to the specific assets that were adjusted significantly to identify the lessons that can be learned and to embed this learning into the new arrangements. The outcome from these reviews should be reported to both the Corporate Overview and Scrutiny Panel and the Pension Fund Panel.</p>	<p>This review took place over January – March 2020. The report was issued in July 2020 and has been presented to the Pension Review panel. As stated in the VFM section, our work in response to the findings in this report continues to be in progress.</p> <p><b>Conclusion: Closed</b></p>

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# Control observations (continued)

Area	2018/19 Observation	Current Year Update
<b>Preparation of accounting papers</b>	<p>Accounting papers were not prepared to explain and support key judgements and estimates, including the ongoing pertinence of judgements made in previous years, or were not sufficiently detailed to explain and support those judgements and estimates. It is good practice (and the expectation of the Financial Reporting Council) for organisations to prepare accounting papers in respect of key matters in the application of accounting standards, in particular for matters of judgement or of estimation complexity. Typically these would include consideration of the relevant requirements of the accounting standards and the Code, the fact pattern (including details of relevant terms of contracts etc.), an assessment of how the standards apply in this context, consideration of potential alternative treatments, the proposed approach to measurement/calculation of accounting entries required, and the required disclosures.</p> <p>The preparation of accounting papers both supports accurate financial reporting, including facilitating both internal and external review and challenge, and provides a resource to ensure institutional knowledge is retained in the organisation.</p> <p>We recommend the Council adopts an approach of preparing papers for any key accounting judgements or issues arising. We also recommend that accounting papers are presented to the same meeting of the Panel at which the draft statement of accounts are approved (if not earlier) for scrutiny and to inform the panel's approval of the draft statement of accounts.</p>	<p>The Council continues to be on an improvement trajectory in relation to the quality of financial reporting information provided. This has mainly related to the quality of accounting working papers and their reconciliation to the accounts. Full accounting papers (formatted as outlined in the 2018/19 observation) were still not provided for key judgements and estimates.</p> <p>There are still improvements that could be made to the structure and detail of accounting papers for provision to the audit team and the Committee.</p> <p><b>Conclusion: Ongoing</b></p>
28 <b>Accounts closure</b>	<p>The Authority provided work papers in response to our audit request list for the start of the audit which we understand met the expectations of the Authority's previous auditors and were in line with what the Authority understood to be required. However, on review, we considered that a number of the work papers were not in line with what we would have expected for the audit, for example, there were challenges in mapping some work papers to the Statement of Accounts, and some work papers were not in the level of detail or format that we had expected and required for our testing.</p> <p>We and the finance team have worked together this year to resolve these matters but this has taken significantly more time than anticipated. As a result, in a number of areas, it has not been possible for officers to provide information for key samples within a reasonable timeframe. Additional time has also been spent in order to understand the accounting treatment for investments in associates and the local enterprise partnerships.</p> <p>These issues have impacted on the achievement of the overall timetable and have led to additional audit costs.</p> <p>We and the Authority have agreed to meet following the audit to discuss areas of improvement identified through this year's audit and agree a detailed joint action plan for 2019/20, including considering whether additional procedures could be brought forward to our interim audit visit. We recommend that the Council considers whether there are year end processes which can be streamlined or pulled forward to earlier in the year. We will work closely with officers as part of the planning for 2019/20.</p>	<p>We met with Council officers early in the process (in January and February 2020) to discuss audit requirements in detail.</p> <p>We note a greatly improved response to our audit request list both in terms of quality and timeliness of responses.</p> <p>There continue to be improvements that can be made in this area and Covid-19 did impact some of our ways of working. We will work closely with officers as part of the planning for the delivery of the 2020/21 audit.</p> <p><b>Conclusion: Ongoing</b></p>

# Your annual report

We are required to report by exception on any where information in other information published with the financial statements (which is the Narrative Report and Annual Governance Statements) is inconsistent with the financial statements.

	Requirement	Deloitte response
29	<p><b>Narrative Report</b></p> <p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> <li>- Organisational overview and external environment;</li> <li>- Governance;</li> <li>- Operational Model;</li> <li>- Risks and opportunities;</li> <li>- Strategy and resource allocation;</li> <li>- Performance;</li> <li>- Outlook; and</li> <li>- Basis of preparation</li> </ul>	<p>Under International Standard on Auditing (ISA) (UK) 720A (revised), the Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, we are required to review the content of the Narrative Report to identify material inconsistencies (if any) with the statements that they accompany. We are not required to give an opinion on the Narrative Report (and as such it is not considered an ‘audited’ statement).</p> <p>As noted in our February report, an updated Statement of Accounts for the Council was provided on 27 January 2021 including an updated Narrative Report. This document has been reviewed with minor recommendations fed back to management.</p> <p>The final version is satisfactory.</p>
	<p><b>Annual Governance Statement</b></p> <p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>The Council’s Annual Governance Statement for 2019/20 was issued to the June 2020 CO&amp;SP.</p> <p>We note in our February paper that, based on the finalised outcome of our work on VFM and the objections, if there are further audit recommendations for improving the disclosures within this document, particularly in the “Governance Issues” section, we will raise these with the relevant Council officers.</p> <p>Our work was also in progress assessing whether the information given in the Annual Governance Statement met the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit.</p> <p>Our work has concluded. We fed back some recommendations to management on the AGS having concluded our VFM work.</p> <p>The final version is satisfactory.</p>

# Objections to the Statement of Accounts

As noted in the introduction, we received 22 potential objections from local electors this year. We have reviewed these and concluded that we would accept 6 as formal objections that can be categorised into 3 areas. The key points that the objections taken forwards related to are summarised below.

Objection title		Nature of the objection
<b>Nicholsons Shopping Centre</b>	1	The lawfulness of the carrying value recognised for the Nicholsons Shopping Centre and the Broadway Multi Storey Car Park assets in the 2019/20 accounts and circumstances surrounding the arrangements for sale of those assets.
	2	The lawfulness of the virement of £470,000 from the Broadway Car Park capital budget for work with Tikehau Capital and Areli on the Nicholson's Shopping Centre redevelopment and a new car park.
	3	The lawfulness of the carrying value recognised for the Nicholson's Shopping Centre and associated assets in the 2019/20 accounts, and circumstances surrounding the arrangements for sale of those assets including whether EU state Aid thresholds were breached.
<b>RBWM Property Company Limited</b>	4	The lawfulness of public assets moving into the RBWM Property Company Ltd on non-commercial terms, and a lack of transparency over that company.
	5	The lawfulness of the support committed by the Authority to the RBWM Property Company Ltd as disclosed in the financial statements of that company.
<b>Loss of office payments</b>	6	The lawfulness of compensation for loss of office payments made to the former s151 Officer and Managing Director, as disclosed in note 37 Officers Remuneration to the 2019/20 accounts, unless and until full reasons for departure are explained. The related lawfulness of making loss of office payments to Officers who are closely connected with the matters outlined in the CIPFA Review of Financial Governance ("CIPFA Report").

## Status of our work and issues identified

We have progressed work on the objections but we note that the final reviews by external legal advisors and PSAA are not yet complete.



# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit and Governance Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- 1 Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit and Governance Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Jonathan Gooding**  
for and on behalf of Deloitte LLP  
St Albans  
11 May 2021

# Appendices

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# Audit adjustments

## Unadjusted misstatements

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Memo: Debit/ (credit) usable reserves £m	If applicable, control deficiency identified
<b>Misstatements identified in current year</b>						
Depreciation on revaluation	[1]	(1.0)	1.0	-	1.0	
Updates to property index data as at 31 March 2020	[2]	1.2	(1.2)	-	(1.2)	
<b>Misstatements identified in prior years that remain uncorrected</b>						
Reconciling items in bank reconciliation	[3]	1.0	(1.0)	-	1.0	Yes
Interest cost included in Modern Equivalent for the revalued school	[4]	1.6	(1.6)	-	1.6	
<b>Total</b>		<b>2.8</b>	<b>(2.8)</b>	<b>-</b>	<b>2.8</b>	

1. On car parks, the in year depreciation charge was not reversed on an asset revalued as at 31 March 2020.
2. Deloitte identified that some BICS indices reported slightly different figures as at 31 March 2020 to those used by KCC ("Kempton Carr Croft" – the expert valuer used by the Council). This is due to the date of looking up the information as these can move. Applying the 31 March 2020 indices identified by Deloitte gives a £1.2m difference.
3. This relates to long outstanding reconciling items for which we were not provided any support. As noted on page 25, we understand from management this has been corrected in the 2020/21 period but have not audited this posting. It was reported to Council in June 2020.
4. Interest was included in the Modern Equivalent Asset valuation for the single school revalued. These valuations are required to be on an "instant build" basis and should only include actual build costs. We understand that the Council plans to correct this when schools next fall into their year of full revaluation within the cycle.

# Audit adjustments (continued)

## Disclosures

### **Disclosure misstatements**

As noted in our February report, an updated Statement of Accounts for the Council was provided on 27 January 2021 including an updated Narrative Report. This document has been reviewed with minor recommendations fed back to management.

The current final version is satisfactory.

No material disclosure misstatements have been identified.

# Fraud responsibilities and representations

## Responsibilities explained



### **Responsibilities:**

The primary responsibility for the prevention and detection of fraud rests with officers and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### **Audit work performed:**

In our planning we identified valuation of land and buildings, capital expenditure and management override of controls as key audit risks for the council.

During course of our audit, we have had discussions with officers and those charged with governance.

In addition, we have reviewed officer's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the Annual Governance Statement.



### **Required representations:**

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

# Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

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## Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit and Governance Committee for the year ending 31 March 2020.

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## Audit fees

The scale fees for the 2019/20 audit of the Council were £63k and for the Pension Fund £19k. These are the same scale fees as the 2018/19 audit. Our audit fee is based on assumptions about the scope and required time to complete our work.

Our audit has required substantial further input. Now work is complete, we will assess the costs of additional work required and share with officers in due course. The final fee agreed will be reported in the annual audit letter following completion of the audit.

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## Non-audit fees

There are no other non-audit fees in relation to the 2019/20 period.

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## 3 Independence monitoring

We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

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## Relationships

We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

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**Royal County of Berkshire Pension Fund**

Final report to the Audit & Governance Committee for the year ended 31 March 2020

Issued on 11 May 2021 for the meeting on the 17 May 2021

**Deloitte Confidential: Government and Public Services – For Approved External Use Only**

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# Introduction

## The key messages in this report

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Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our final report to the Audit & Governance Committee of Royal Borough of Windsor & Maidenhead (the "Committee") for the 2019/20 audit of the Royal County of Berkshire Pension Fund (the "Fund"). The scope of our audit was set out within our planning report presented to the Corporate Oversight & Scrutiny Panel in May 2020.

### **Status of the audit – Pension Fund**

At the date of issue of this report, our audit of the pension Fund for the year ended 31 March 2020 is nearing completion. We have set out on page 4 the procedures that are in progress. Responses have been provided for all IAS 19 requests from auditors of other Fund employers, including two late requests for 2018/19 for Reading Borough Council and Slough Borough Council. Following the conclusion of some of the issues outstanding at the date of our previous report, and at the request of these auditors, we are in the process of reissuing letters in respect of the 2019/20 requests.

Significant changes have been made to the audit timetable we presented in our planning report as a result of delays experienced in receiving information from the Fund and its third party service organisations across many key areas of testing. Some of the delays were the result of the COVID-19 pandemic. Where delays were due to weaknesses in governance or controls, we have included our comments on this within the control observations and other findings section of the report.

The investment manager, Local Pensions Partnership ("LPP"), has found it difficult to obtain and provide some of the requested information for our testing of the alternative investment funds. This included audited financial statements of the funds, without which it was not possible for us to conclude on our testing. We have now received all the information we require in respect of the alternative investments.

On investigation, the alternative investment portfolio was materially overstated in the draft financial statements by £31.5m. This was due to the use of stale valuations that had not been adjusted to reflect the negative performance experienced by many funds during the first quarter of 2020 as a result of COVID-19. This is the second year we have performed the audit of the Fund and we have identified material misstatements in both years (£74.5m overstatement in 2018/19). We therefore draw your attention to the high priority recommendations on pages 8 to 13.

Following the receipt of the draft financial statements for the Fund as at 31 March 2020, we revised our materiality from £14.5m to £20.3m. The initial materiality calculation had been based on an estimate that net assets would be 70% of what they were at 31 March 2019, as an estimate of the potential effect of COVID-19 on investment values. In contrast, the draft reporting for 2019/20 showed a much higher net asset balance than predicted. Our reporting threshold has also been updated from £0.3m to £1.02m, which is in line with our revised materiality.



# Introduction

## The key messages in this report (continued)

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### Conclusions from our testing

We have set out a summary of misstatements and disclosure deficiencies identified on pages 19 and 20 of this report. The main adjusted misstatement relates to the overstatement of alternative investments as noted above. The corrected disclosure misstatements relate to an undisclosed material uncertainty of property fund valuations and an undisclosed related party transaction of an overnight loan of £1.2m made by the Fund to the Royal Borough of Windsor and Maidenhead (“the Authority”). There is an uncorrected disclosure misstatement relating to the absence of an adjustment to the IAS 26 disclosure to account for the expected impact of the Goodwin case on the Fund’s future liabilities.

We note that following consideration of the permissibility of the overnight loan and the associated control weakness, the Fund has reported the issue to the Pensions Regulator. More details are provided on page 11.

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### Audit procedures outstanding

The following audit procedures are ongoing at the time that this report was released:

- Receipt of evidence of one bank payment authorisation;
- Finalisation of our internal quality review procedures;
- Update of our subsequent events procedures; and
- Receipt of the signed representation letter.

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### 4 Management representations

We will obtain written representations from the Section 151 Officer on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the representation letter has been issued ahead of signing the financial statements.

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### Audit fee

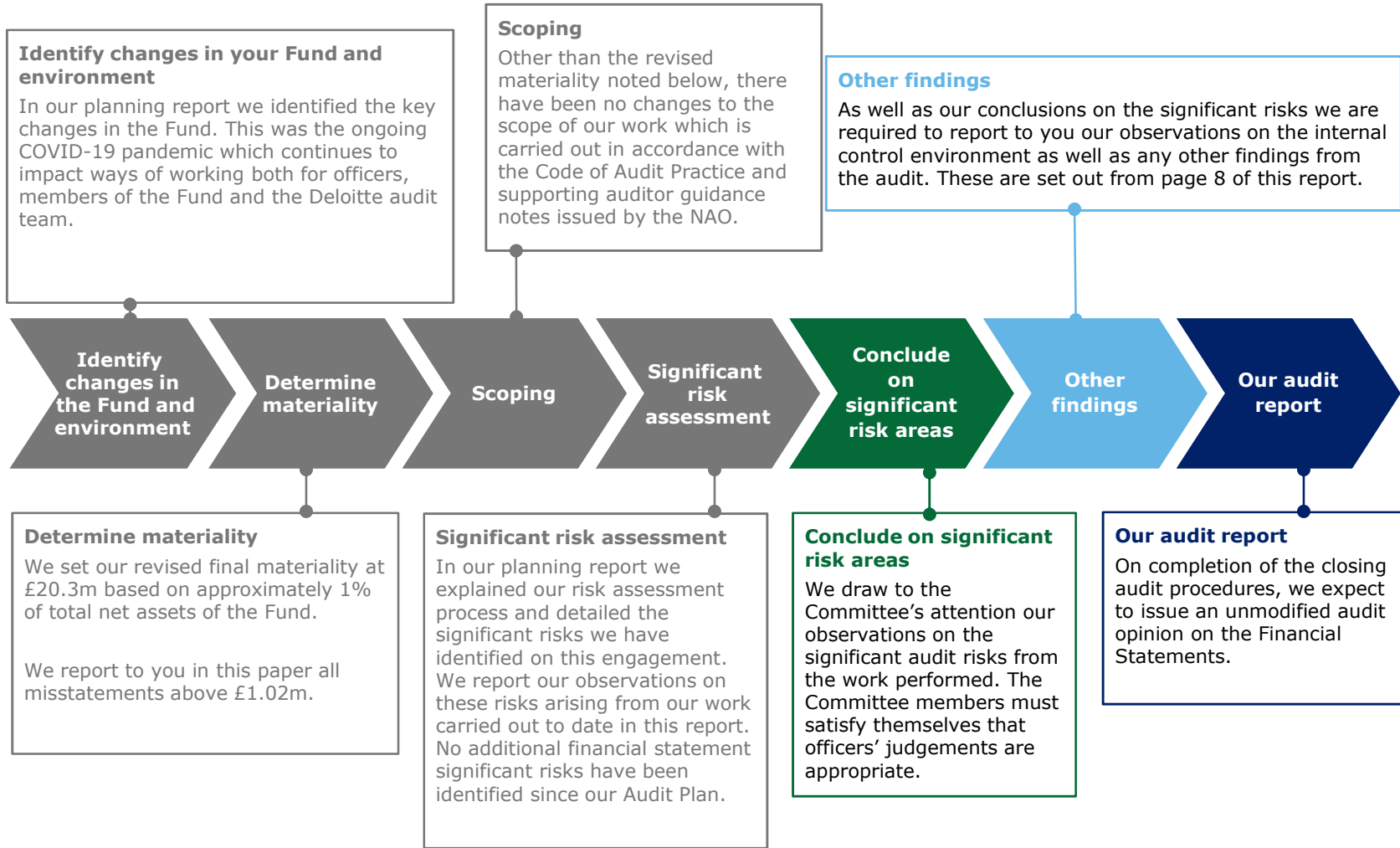
As explained in our 2019/20 fee letter, our audit fee is based on assumptions about the scope and required time to complete our work. For the reasons set out above, our audit was not concluded by the original 31 July deadline, or the extended 30 November deadline, and it has required substantial further input. The audit has also required additional procedures in response to COVID-19. We continue to discuss the impact on the audit fee with the Authority and Public Sector Audit Appointments (“PSAA”). The final fee amount will be communicated to the Committee.

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# Our audit explained

## We tailor our audit to your organisation

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# Significant risks

## Management override of controls

### Risk identified

In accordance with ISA 240 (UK) management override of controls is always a significant risk. This risk area includes the potential for officers to use their judgement to influence the financial statements as well as the potential to override the Fund's controls for specific transactions.

### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that the Fund's draft financial statements were overstated by approximately £31.5m due to the inclusion of 55 alternative investment funds at values that had not taken account of the impact of COVID-19 on performance.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### *Significant and unusual transactions*

We note that the Fund made an overnight loan to the Authority on the 27 June 2019 of £1.2m. We have seen no evidence that the loan was authorised by the Fund. A control weakness has been noted on page 11 and the matter has been reported to the Pensions Regulator. We have not identified any other significant transactions outside the normal course of business nor any transactions where the business rationale was not clear in the current year.

### *Journals*

We have performed design and implementation testing of the controls in place for journal approval. We also performed an assessment of the mandates in place for the transactions with the custodian and with the Fund's bank account.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest. This included consideration of related party transactions.

We have tested the appropriateness of a sample of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting, including making enquiries of individuals involved in the financial reporting process.

### *Accounting estimates*

We have performed a review of the accounting estimates.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest.

We have reviewed the draft financial statements' accounting estimates for biases that could result in material misstatements due to fraud.

We also considered the impact of COVID-19 on the level of risk associated with potential frauds and adjusted our procedures accordingly.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources. The findings from our work on the longevity swap valuation are included on page 7 of this report.

### Issues identified

- We have identified control deficiencies, set out on pages 8 to 13;
- Other than the undisclosed loan noted above, we have not identified any significant bias in the key judgements made by officers based on work performed; and
- We have not identified instances of management override of controls in the current year in our work to date.

# Significant risks (continued)

## Valuation of the longevity hedge

### Risk identified

The Fund holds a material longevity insurance policy to hedge longevity risk. A longevity hedge is designed to insure the Fund against the risk that pensioners live longer than the current mortality assumptions. Valuation of longevity hedges are sensitive to relatively small movements in the key assumptions used in the actuarial calculations. The setting of these assumptions involves judgement. The longevity hedge was valued as a liability of £103.8m in the 2018/19 Statement of Accounts and £121.8m in the 2019/20 Statement of Accounts presented for audit and is therefore quantitatively material. As a result of this we consider the valuation of the longevity hedge to be a significant risk.

### Key judgements and our challenge of them    Deloitte response

The Fund's practice is to obtain a valuation from the Fund's actuary as at each year end. The actuary also reviews the assumptions relating to the overall Fund's liability on a triennial basis. The most recent triennial valuation was completed as at 31 March 2019.

During the audit the balance was revised by £2.08m (initial draft liability was £123.9m) due to the actuary issuing an updated report.

Key judgements include:

- The discount rates used in discounting the estimated cash flows associated with the instrument; and
- The mortality improvement assumptions.

We have:

- Performed an assessment of the actuarial expert in respect of their knowledge and experience in this area;
- Identified an absence of the review control that we recommended in our 2018/19 audit report with respect to the valuation of the longevity swap;
- Tested the design and implementation of the valuation review control in place at the actuary;
- Obtained a valuation report directly from the actuary and reconciled this to the financial statements disclosure;
- Reviewed the underlying documentation for the policy, including the population covered, the assumptions and other key inputs used in the calculation, and the agreed cash flows;
- Engaged in-house actuarial specialists to challenge and assess the reasonableness of the valuation of the policy based on the underlying terms of the contract and the forecast cash flows; and
- Compared our expectation of the value with that reported by the actuary, investigating any differences identified that are outside the range of results that we consider to be reasonable.

### Deloitte view

Following review by our internal specialists we conclude that the assumptions used are in line with the market and that the value included in the financial statements is within an acceptable range based on the present value of the cash flows provided.

It is recommended that the actuary:

- monitors the mortality experience of the swap and tests the ongoing appropriateness of assuming the base mortality is in line with the pension Fund assumptions.
- continues to perform an Analysis of Change which will provide an additional layer of control on the results.
- challenges the premium schedule inputs from ReAssure (counterparty) should they change unexpectedly as this will provide an additional layer of control on the results.

We have identified a **control weakness** in this area and made recommendations for management to consider when valuing the longevity hedge in future. Our recommendations have been summarised from page 8.

# Control observations

During the course of our audit we have identified internal control findings which we have included below for information.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit to date and that we have concluded are of sufficient importance to merit being reported to you. We will report to you any other significant deficiencies we identify during the conclusion of our audit work in our final audit report.

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Area	Observation
<b>Valuation of the longevity swap</b>	<p>In our final report on the 2018/19 audit, we recommended that the Authority ensures that the valuations provided by the actuary are reviewed and that the assumptions are challenged, understood, and agreed before inclusion of the valuation in the financial statements. Discussions with officers of the Fund during the 2019/20 audit revealed that, while the longevity swap valuation had been discussed with Barnett Waddingham, there was no formal control design documented and no recorded evidence of implementation of the control. We have been informed that the discussion with Barnett Waddingham took place after inclusion of the valuation in the financial statements.</p> <p>This is a significant control weakness and we recommend that the Authority ensures that the valuations provided by the actuary are reviewed and that the assumptions are challenged, understood, and agreed before inclusion of the valuation in the financial statements. We recommend that evidence of this review and assessment is clearly documented.</p>
<b>Valuation of the convertible bond</b>	<p>In our final report on the 2018/19 audit, we recommended that the Authority ensures that the valuation of all bespoke investments is understood by the investment manager and that controls are designed and implemented to ensure an appropriate challenge is made of valuations received from any service organisation. In the current year the fair value of the bond included in the draft financial statements was very close to the final value in the 31 March 2019 financial statements. The value presented in the draft financial statements was £2.3m (2018/19: £2.2m), but given the complexity involved in valuing this instrument, we made enquiries of the Fund to ensure that there was an evidence-based rationale for this value. On investigation it was noted that there was no formal support for the decision to leave the value unchanged in the draft financial statements and no evidenced-based rationale had been prepared. Following discussions with management, a paper was provided by the investment manager to support the valuation decision.</p> <p>We recommend that the Committee ensures that the valuation of all bespoke investments is understood by the investment manager before completion of the draft financial statements, and that controls are implemented to ensure an appropriate challenge is made of valuations received from any service organisation. We recommend that evidence of this review and assessment is clearly documented.</p>

## Control observations (continued)

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Area	Observation
<p><b>Valuation of the private equity portfolio and other alternative funds</b></p>	<p>In our final report on the 2018/19 audit, we recommended that the Authority review the terms and conditions of its relationship with all investment service providers and seek assurance that controls are in place to ensure that the most recent audited financial statements of each investment fund, along with the regular capital valuation statements and any evidence of any capital transactions are received and regularly reviewed in a timely fashion. Our standard testing approach for alternative investment funds includes obtaining the most recent audited financial statements of the investment fund along with information about capital committed and any capital transactions that occurred since the date of the audited financial statements. Obtaining the specific information we require and receiving this in a timely manner has continued to be difficult during the current year audit and we have experienced delays. This had a direct impact on the progress of this testing. It also continues to indicate the absence of robust controls around the management of these funds. We are aware that the Fund has taken steps to better understand the processes, controls and responsibilities of the investment service providers and that consideration is being given to how best to address this finding.</p> <p>Testing in the 2019/20 year audit revealed that the alternative funds were overstated in the draft financial statements by approximately £31.5m. This error was adjusted in the final financial statements. In discovering and resolving this misstatement it was noted that there was no process or control in place to determine the valuation of stale price funds as at the year end, or to update the financial statements if new information came to light before they were signed.</p> <p>These matters represent significant control weaknesses. We recommend that the Fund continues to review the terms and conditions of its relationship with all investment service providers and takes steps to ensure that controls are in place such that the most recent audited financial statements of each fund, along with the regular capital valuation statements and any evidence of any capital transactions are received and regularly reviewed in a timely fashion. We recommend that the Fund also ensures that controls within the financial reporting process are implemented such that the best estimate of the fair value of investments is used in the draft financial statements and that material changes to the investment balances that come to light before signing are reflected in the financial statements. Where the Fund does not have the appropriate resource within its staff, it should provide clear instructions to LPP or the custodian to perform the processes and controls required.</p>
<p><b>Retrospective review of investment decision making</b></p>	<p>In our final report on the 2018/19 audit we also recommended that the Fund perform a review of the arrangements around pension asset investment decision making, monitoring and reporting of the valuation of those investments. This was to include an historic review of the arrangements with respect to the specific assets that were adjusted significantly to identify the lessons that can be learned and to embed this learning into the new arrangements. The outcome from these reviews was to be reported to both the Corporate Oversight &amp; Scrutiny Committee and the pension Fund Panel. We note that the scope of the work did include these considerations and that the final report was provided to the Authority in July 2020.</p>

# Control observations (continued)

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Area	Observation
<p><b>Review of financial statements</b></p>	<p>The design of the control for review of the financial statements did not include checking the draft statements to the underlying workings. We also noted that for the 2019/20 financial statements there was no evidence of a formal review and, at the time of testing this control, there was a lack of awareness of any review process. Furthermore, there was no evidence that the CIPFA checklist had been used in the accounts preparation process, or in any review that may have taken place. This weakness in control increases the likelihood of misstatements in the financial statements.</p> <p>We recommend that the design of the financial statement review control is amended to include checking to underlying working papers, the completion of a full CIPFA checklist, and is communicated clearly to all those involved in the preparation and review process. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period.</p>
<p><b>Review of journals</b></p>	<p>The design of the control for review of journal postings does not include a formal description of the review process. There was no clear evidence available that a review took place over journal postings for a month selected. We also noted that some of the monthly investment posting updates did not occur within a reasonable timeframe. Furthermore, during journal testing it was noted that there were multiple errors in original journal postings that had to be adjusted in subsequent journal entries. This suggests that any control implemented over journal review was deficient.</p> <p>Given that management override of controls is a significant risk of material misstatement and that we use journals testing to detect fraud and error, it is critical that this control weakness is addressed. We recommend that the design of the journal posting review control is amended to include a well defined scope, for example a checklist. We also recommend that it is communicated clearly to all those involved in the preparation and review process, and takes place in a timely manner before journals are posted to the accounting system. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period.</p>
<p><b>Administration system editing rights</b></p>	<p>From the work performed on controls around member data, we noted that the system super-users have the access rights to edit their own member records and those of each other. Whilst any editing of the system can be reviewed in a system audit report, there is no formal regular review of this editing activity and no evidence was available of any other mitigating controls. On review of the system audit report for a two year period ended 31 March 2020, it was noted that both super-users had edited either their own or the other super-user's records. We performed additional procedures to determine if any of this activity had resulted in an alteration to the records that was inconsistent with the 2018/19 information submitted to the actuary. Nothing other than minor updates were noted.</p> <p>We recommend that the IT system is updated to prevent super-users from editing their own records, that any editing of each other's records is checked by a third person, and that an annual review of the system audit report is conducted to ensure that this control is being implemented and evidenced.</p>

# Control observations (continued)

48

Area	Observation
<p><b>No evidence of authorisation for overnight loan prior to payment</b></p>	<p>As noted on page 6, the Fund made an overnight loan to the Authority on the 27 June 2019 of £1.2m. The amount was returned to the Fund in full on the 28 June 2019. Officers of the Fund have made it clear that they were aware of and approved the transaction at the time. However, there was no evidence available to demonstrate that the Fund authorised this transaction in advance of the payment to the Authority, nor was there a formal record of the business rationale from the perspective of the Fund for such a transaction. We have not noted any other similar transactions during the 2019/20 year.</p> <p>We also consider this transaction to be qualitatively material and therefore should be disclosed as a related party transaction in the notes to the Financial Statements of the Fund. This disclosure was not present in the initial draft, but has now been added following our audit recommendation.</p> <p>We recommend that the Fund implements a control to record and review the rationale for all transactions outside the normal course of business, including consideration of any relevant laws, regulations and conflicts of interest. We also recommend that sufficient appropriate evidence is retained, demonstrating that the control has operated for all such transactions.</p> <p>We consider that the lack of control over cash leaving the Fund is an indication of poor governance and is therefore a red breach which should be reported to the Pensions Regulator. The Fund has informed the Regulator. We recommend that the Fund does not enter into similar transactions in the future, at least not without appropriate consideration by those charged with governance.</p>
<p><b>Separation of the Fund from the Authority</b></p>	<p>In reconciling the journal activity for the year, it was noted that some journal postings included activity for both the Fund’s financial statements and those of the Authority. On reviewing the journal population as a whole for both the Fund and the Authority we concluded that the population was complete for the year ended 31 March 2020. We also noted that some payments made to the Authority by the Fund for costs incurred on behalf of the Fund, were not formally invoiced by the Authority and that there was no evidence of formal authorisation available for these transactions.</p> <p>We recommend that the general ledgers of both entities are maintained in isolation. We also recommend that formal documentation is prepared by the Authority to request payments from the Fund, and that this is reviewed by the Fund before payments are made. Furthermore, sufficient appropriate evidence should be retained demonstrating that the control has operated for all such transactions.</p>



## Control observations (continued)

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Area	Observation
<b>Benefit calculations</b>	<p>There were issues noted with the control environment for benefit calculations, and updating records for member deaths.</p>
	<p>There is no evidence of what has been checked by the reviewer of benefit calculations e.g. a checklist or printout of the calculation and its inputs with tickmarks. Instead the reviewer confirms they have checked the inputs of the calculation on the administration system. While the reviewer will have much experience of the process and what to check, this is not documented and there is no formal process to ensure every figure has been checked, or if there are other matters to consider.</p>
	<p>No periodic review of the benefits system calculation is in place. We note that large pension schemes typically have a process in place whereby administrators regularly review the system calculation, or the actuary periodically reviews and tests the system calculation, to ensure it is calculating members' benefits accurately in line with the scheme's rules.</p>
	<p>For the audit year 2019/20, the control over updates to the pensioner member records on death was not implemented correctly in the year due to the absence of the administration team member who processes these updates. The person was absent due to illness from November 2019 to January 2020. The screening process was restarted after this.</p>
<p>We recommend that a formal record is retained of the points checked by the reviewer of benefit calculations, that a periodic review of the calculations produced by the benefits system is scheduled and carried out by a suitably qualified person and that contingencies are put in place to ensure benefits controls continue to operate in the event of personnel absences.</p>	

## Control observations (continued)

Area	Observation
<b>Monthly investments update review delayed</b>	<p>During the year to the 31 March 2020, there were occasions that the implementation of the review control over the monthly investments update did not occur within a reasonable timeframe. The update of the monthly investments reconciliation for January 2020 was not performed until May 2020, which is 4 months after the month in which it relates. This delay in ensuring the investments' accounting records are up to date could result in management decisions and reporting being based on out of date information. We acknowledge that the Fund was seeking to appoint a replacement accountant during that part of 2020. A finding relating to continuity planning has been included on the next page.</p> <p>We recommend that the accounting records are updated on a timely basis to ensure management information is sufficiently up to date to correctly inform decision making.</p>
50 <b>IT control – Altair audit trail of changes</b>	<p>Part of the work of our IT specialists included a review of aspects of the Altair audit trail of changes. It was noted that the filtering on the 'End Date/Time' for the report does not ensure all changes for each month are extracted as 2 minutes from each month are missed. The Audit Trail Of Changes can be extracted for each month to show all the changes made to the Altair system. Whilst we acknowledge that 2 minutes per month is a very small portion not covered, onscreen inspection showed that the report produced for the audit was not filtered to include all changes in the report extraction as 2 minutes of each month were missed due to insufficient filtering of the 'End Date/Time' parameter. We performed additional procedures to gain comfort over the Altair editing by super-users as noted on page 10 and did not detect any unusual changes to the records.</p> <p>We recommend that the annual review of the Altair audit trail include ensuring that completeness of the reports generated for review.</p>
<b>Administration system – segregation of duties controls</b>	<p>As part of our review of controls around the retirement benefits system it was noted that the system did not prevent individuals signing off their own work as reviewed. We did not find any evidence that an individual has prepared work and signed it off as reviewed, but the possibility exists within the current system.</p> <p>We recommend that controls are implemented within the system to ensure that work prepared must be sent to someone with review responsibilities.</p>

# Other Findings

During the course of our audit we have identified findings which we have included below for information.

The purpose of the audit was for us to express an opinion on the financial statements. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you. We will report to you any other significant findings we identify during the conclusion of our audit work in our final audit report.

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Area	Observation
<b>Lack of continuity plans in relation to absence of key individuals</b>	We have noted during our audit that the departure in early 2020 of the Fund accountant has led to delays in providing a number of elements of documentation. This may also have contributed to the failure of some financial statement controls as noted above. The impact of the departure may have been more significant if not for the assistance provided by the outgoing accountant, months after he had left his post. We note that accounting is not the only area of the Fund’s operations that could be susceptible to changes in key personnel. Therefore we recommend that continuity plans be developed for all key roles within the Fund’s operations.
<b>Internal audit and monitoring of controls</b>	It was noted that there was no formal internal audit review of the controls of the Fund for the year to 31 March 2020. In place of a review by internal audit, the Fund performed an overall governance review, including a pensions governance report commissioned by the Authority. However, given the number of control deficiencies noted above, we recommend that the internal audit function of the Authority is engaged annually to assess the operation of controls at the Fund.
<b>Compliance with LGPS regulations and the regulator</b>	Within the administration strategy document, it is noted that there should be clear procedures laid out in relation to confirming compliance with LGPS regulations and the regulator. No evidence was available to demonstrate that formal procedures exist. We recommend that procedures are developed in response to the requirements, and which ensure that the Fund meets its statutory obligations and regulatory requirements.

## Other Findings (continued)

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Area	Observation
<p><b>Approach to the pension liability disclosure</b></p>	<p>Our actuarial specialists reviewed aspects of the IAS 26 disclosure of the Fund’s future liabilities. Following a case involving the Teachers’ Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS. It was noted that no allowance has been made by the Fund actuary in the liability valuation for the Goodwin case. Our actuarial specialists confirmed that this assumption is not reasonable and there is an estimated cost of approximately £8m (0.2% of the liability). This has been included within this report as an unadjusted misstatement.</p> <p>Furthermore it was noted that the approach taken by the Fund actuary towards member data cleansing and checks was not in line with best practice.</p> <p>We recommend that the Fund takes steps to ensure that all non-trivial adjustments to the liability are included at each valuation and that it satisfies itself that appropriate procedures are in place at the actuary to cleanse and check the member data used in each valuation.</p>
<p><b>IAS 19 cash flows incomplete</b></p>	<p>In performing procedures relating to our response to IAS 19 letter requests from the auditors of scheduled bodies, we noted that the cash flow information provided to the actuary for the year to 31 March 2020 was incomplete. The report produced on the 2 June 2020 indicated that it covered all 12 months of the year and the actuary had used it as the basis for the cash flow elements of the IAS 26 and IAS 19 disclosures. However on inspection it was clear that some contributions cash flows had not been included of approximately £8.5m, and the March 2020 pensions payroll and the bulk transfer out were missing from the benefits cash flows. These differences have been reported to the auditors of the scheduled bodies who requested an IAS 19 response.</p> <p>We also noted as part of the IAS 19 work that there was an absence of a formal review control associated with the provision of information to the actuary. We have been informed some aspects of the information upload were reviewed, but there was no formal review process or record of the informal review.</p> <p>We recommend that the cash flow reporting is reviewed carefully and checked for reasonableness against expectations before it is provided to the actuary.</p>
<p><b>Lack of procedures to detect subsequent events</b></p>	<p>Following enquiry we were informed by the Fund that there are no formal procedures in place to detect and deal with subsequent events. Material subsequent events should be disclosed in the notes to the financial statements and therefore we recommend that a process is implemented to consider this up to the date of signing of the financial statements.</p>

## Other Findings (continued)

Area	Observation
<b>Maintenance of records</b>	<p>As part of our testing of the bulk transfer out we noted that no detailed member by member calculation was available to support the total valuation presented by the actuary for the bulk transfer, and no official confirmation communications from the receiving scheme were available.</p> <p>We also noted that lump sums can be paid as part of the pensioner payroll. Furthermore, due to the way in which lump sums are recorded on the accounting ledgers, the Fund was unable to provide a definitive list of payees for some of the accounting entries sampled as part of our testing.</p> <p>It is important that the Fund ensures that adequate records are created and retained to evidence the rationale for all payments leaving the Fund.</p>
<b>Bank and custodian mandates</b>	<p>We examined the mandates provided for the bank account and for investment/disinvestment transactions with the custodian. On review of the list of names on the mandates it was noted that they included personnel within RBWM who were not officers of the Fund. We also noted that they included the names of personnel who were no longer employed by RBWM.</p> <p>We recommend that all mandates are reviewed and updated accordingly to ensure they are complete and contain only relevant personnel. We also recommend that they are updated on an annual basis, or as soon as signatories leave office.</p>

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# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit & Governance Committee and the Fund discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Fund.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit and Governance Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

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We welcome the opportunity to discuss our report with you and receive your feedback.



**Jonathan Gooding**

for and on behalf of Deloitte LLP

St Albans

11 May 2021

# Appendices

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## Audit adjustments

### Uncorrected misstatements

No adjustment has been made to the IAS 26 disclosure of the Fund's liability in light of the Goodwin case. We estimate the value of the disclosure misstatement to be approximately £8m (0.2% of the total liability).

There are no other misstatements that have been identified up to the date of this report which have not been corrected by officers of the Fund.

### Corrected misstatements

The following misstatements have been identified which have been corrected by officers. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

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		Debit/ (credit) Fund account £m	Debit/ (credit) in Net asset statement £m	If applicable, control deficiency identified
<b>Misstatements identified in current year</b>				
Overstatement of investments from stale priced alternative funds	[1]	(31.5)	31.5	Yes
Overstatement of longevity swap liability	[2]	2.1	(2.1)	No
<b>Total</b>		<b>(29.4)</b>	<b>29.4</b>	
<b>Misstatements identified in prior years – see prior year ISA 260 for details</b>				
Revaluation of longevity swap		40.3	(40.3)	Yes
Revaluation of convertible bond		34.2	(34.2)	Yes
<b>Total</b>		<b>74.5</b>	<b>(74.5)</b>	

(1) 55 alternative funds had been included within the draft financial statements at stale prices, unadjusted for market movements up to the year end. Valuations received during the audit showed that these funds had decreased in value in aggregate by a material amount.

(2) During the audit, the actuary updated the longevity swap valuation.



# Audit adjustments (continued)

## Disclosures

### Disclosure misstatements

The following disclosure misstatements have been identified which officers have corrected.

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#### Disclosure

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##### Material uncertainty of property fund valuations

In our planning report dated the 21 May 2020, we identified that property valuers had experienced difficulties in assessing the market value of properties as at the 31 March 2020 due to the restrictions in force as a response to COVID-19. This was an industry wide issue and, following guidance issued by the Royal Institute for Chartered Surveyors, it was expected that all valuers will report a material uncertainty over the value of property assets held at 31 March 2020 as a result of Covid-19 factors. In response to the valuation uncertainties, many property funds were gated as at 31 March 2020. Our plan included assessing the extent to which this issue affected the Fund.

As part of the audit we received more information about the material property funds. We consulted with our Deloitte Real Estate Specialists, including consideration of the type and nature of the properties held. On review of the evidence received it was concluded that a material uncertainty did exist over the valuation of the Fund's property funds as at 31 March 2020. Given the value of the property funds included within the Fund's financial statements (approximately £292m), the presence of a material uncertainty over these valuations should be disclosed in the financial statements. This disclosure was absent from the draft financial statements, but has now been added in response to this audit finding.

##### Related party transaction

As noted within our controls findings on page 11, the Fund made an overnight loan to the Authority of £1.2m on 27 June 2019. We are considering the permissibility under the relevant regulations of the overnight loan made by the Fund to the Authority, but we consider this transaction to be qualitatively material and requiring disclosure as a related party transaction. This disclosure was absent from the draft financial statements, but has now been added in response to this audit finding.

##### Critical judgements and estimates

On review of the critical judgements and estimates disclosed in notes 4 and 5 of the financial statements we noted that the disclosures were not in line with the applicable International Financial Report Standards. Both notes 4 and 5 required significant changes to the wording during the audit as a result of the issues we identified. The changes have been made in full.

##### Concentration of investments

Note 14 to the financial statements includes disclosure of investment instruments that are greater in value than 5% of the Fund's net assets. The draft accounts did not include the longevity swap within this list. The swap was in a liability position with a magnitude of approximately 6.1% of the Fund's net assets as at the 31 March 2020. The longevity swap has now been included within the disclosure appropriately.

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# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with officers and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Audit work performed:

In our planning we identified valuation of the longevity hedge, valuation of the convertible bond and management override of controls as key audit risks for the Fund.

During course of our audit, we have had discussions with officers and those charged with governance.

In addition, we have reviewed officers' own documented procedures regarding fraud and error in the financial statements.

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### Required representations:

We have asked the Fund to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Fund.

We have also asked the Fund to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

# Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

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Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund.
Audit fees	<p>The scale fee for the 2019/20 audit of the Pension Fund was £19k. This is the same scale fee as the 2018/19 audit. Our audit fee is based on assumptions about the scope and required time to complete our work.</p> <p>As noted earlier in this report, our audit was not concluded by the original 31 July deadline and it has required substantial further input. We continue to discuss the impact on the audit fee with the authority and Public Sector Audit Appointments ("PSAA"). The final fee amount will be communicated to the Committee once agreed.</p>
Non-audit fees	There were audit related services carried out regarding the issuance of assurance letters to the auditors of participating employers. The fees for this work are being considered as part of the discussions around the main audit fee. There are no other non-audit fees.
Independence monitoring	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Fund, its members, officers and affiliates. We have not supplied any services to other known connected parties.
Ethical Standard 2019	The FRC has released the Ethical Standard 2019. The standard classes pension schemes as 'other entities of public interest' where assets are greater than £1bn and there are more than 10,000 members. As a result, non audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subs will be prohibited.



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### Appendix 3: Action Plan for issues identified on the ISA260 for RBWM 2019/20 Statement of Accounts

Ref	Area of Issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
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#### A – SIGNIFICANT RISKS

1	<b>Valuation of Property assets</b>	Material uncertainty related to property valuation. The Council's external valuer noted that the pandemic has caused extensive disruptions to businesses and increased uncertainty over valuation of property.	To ensure that the valuers receive the most up to date valuations for inclusion in the 2020/21 statements.	31 May 2021 for 2020/21 SoA audit	Chief Accountant	Actions already implemented for the 2020/21 statement of accounts.
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#### B - CONTROL OBSERVATIONS

1	<b>Preparation for IFRS16 implementation</b>	Implementation of IFRS16 is delayed to 2022/23 for public sector so no impact on 2019/20.	Preparation for the implementation of the IFRS16 standard is to be completed.	31 March 2022 prior to implementing in 2022/23	Chief Accountant	Preparations are being made for the introduction of this standard in 2022/23  Will still show as control observation in the 2020/21 ISA260 report.
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2	<b>Valuation of properties</b>	<ul style="list-style-type: none"> <li>• Much improved process from 2018/19.</li> <li>• Deloitte real estate expert has raised some recommendations for the future on property valuations.</li> <li>• Council require clear documentation of the Depreciated replacement cost used in calculations.</li> <li>• Council to ensure maintain liaison with valuer right up to date of issue of the statements.</li> </ul>	<ul style="list-style-type: none"> <li>• Documentation for the replacement costs calculations</li> <li>• Liaison with valuer to date of statement issue.</li> </ul>	31 May 2021 for 2020/21 Statement of accounts	Chief Accountant	Actions already implemented for the 2020/21 statement of accounts.
3	<b>Classification of expenditure as capital</b>	Arrangements to further improve the processes for capital expenditure classification supported by clear evidence.	Capital board to further improve processes including documentation of evidence of decisions made.	Improvement during 2020/21 and will be further built on during 2021/22.	Head of Finance	Further improvements to be included as part of the development of the Capital review board during 2021/22.
4	<b>Reclassification of assets under construction</b>	One item of assets under construction was not transferred out of assets into the category of property, plant and equipment to which it related.	Council to implement a control to review assets under construction to verify transfer dates.	31 May 2021 for 2020/21 Statement of accounts	Chief Accountant	Actions already implemented for the 2020/21 statement of accounts.

5	<b>Preparation of accounting papers</b>	<ul style="list-style-type: none"> <li>Improvement in papers from 2018/19 audit.</li> <li>Full accounting papers were not initially provided for all key judgements and estimates.</li> </ul>	Full back up papers to be provided for all keys judgements and estimates in the draft 2020/21 statement of accounts.	Implemented during 2020/21 for inclusion in the accounting papers for the 2020/21	Chief Accountant	Work is underway to complete all accounting papers for the audit starting in June 2021.
6	<b>Accounts closure</b>	<ul style="list-style-type: none"> <li>Greatly improved response to audit requests and timing of responses.</li> <li>Continue to work on planning for delivery of the 2020/21 statement of accounts</li> </ul>	Planning meetings with the auditors to take place to ensure completion of the 2020/21 statement to the deadline of 30 Sept 2021.	31 May 2021	Chief Accountant	Covid-19 has changed the planning process to on-line delivery. Planning meetings took place during February 2021. It is hoped that face to face meetings can reconvene during the 2020/21 audit.

### C - UNADJUSTED MISSTATEMENTS

1	Depreciation on revaluation	On car parks the in year depreciation charge was not reversed on one asset revalued as at 31st March 2020.	To ensure correct treatment of all depreciation charges.	Implemented during 2020/21 for inclusion in the accounting papers for the 2020/21 statements.	Chief Accountant	Actions already implemented for the 2020/21 statement of accounts.
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2	Updates to property index	Deloitte identified that some property indices reported slightly different figures as at 31st of March 2020 those used by councils valuer.	Ensure that figures are reconciled and reported accurately on the 2020/21 statement of accounts.	31 March 2021 for 2020/21 Statement of accounts	Chief Accountant	Actions already implemented for the 2020/21 statement of accounts
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#### D - PRIOR YEAR MISSTATEMENTS THAT REMAIN UNCORRECTED

1	Reconciling items in the bank reconciliation Updates to property index	There are long standing unreconciled items in the bank reconciliation as at 31 March 2020.	Report to go to council to offset the outstanding unreconciled items in 2020/21.	June 2020	Chief Accountant	A report was taken to full council in June 2020 to offset the credits in Housing benefits against the outstanding unreconciled items. This will be audited by Deloitte as part of the 20/21 audit.
2	Interest cost included in modern equivalent for the revalued school	Interest was included in the Modern Equivalent Asset valuation for the single school revalued.	To ensure correct treatment for future revaluations.	March 2022	Chief Accountant	This will reappear on the 2020/21 ISA260 as the schools revaluations are scheduled for 2021/22.



#### Appendix 4: Action Plan for issues identified on the ISA260 for RCBPF 2019/20 Statement of Accounts

	Area of issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
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#### CONTROL OBSERVATIONS

65	1. <b>Valuation of the longevity swap:</b>	This is a significant control weakness and we recommend that the Authority ensures that the valuations provided by the actuary are reviewed and that the assumptions are challenged, understood, and agreed before inclusion of the valuation in the financial statements. We recommend that evidence of this review and assessment is clearly documented.	An independent actuarial valuation of the longevity swap to be obtained each year. The method of conducting this valuation will be discussed and agreed with the actuary in advance of the valuation.	Ongoing	Head of Pension Fund	Will show as a control observation in the 2020/21 ISA260 report.
2.	<b>Valuation of the convertible bond</b>	We recommend that the Committee ensures that the valuation of all bespoke investments is understood by the investment manager before completion of the draft financial statements, and that controls are implemented to ensure an appropriate challenge is made of valuations received from any service organisation. We recommend that evidence of	The convertible bond converted to an equity investment during 2020/21. Historic bespoke investments will remain until such time as it becomes viable for them to be terminated. LPPI as investment manager monitors this closely.	Ongoing	Head of Pension Fund	The issue of the convertible bond will not arise again although until such time as the legacy assets have been pooled issues surrounding so-called bespoke investments may recur.

		this review and assessment is clearly documented.				
3.	<b>Valuation of the private equity portfolio and other alternative funds</b>	<p>We recommend that the Fund continues to review the terms and conditions of its relationship with all investment service providers and takes steps to ensure that controls are in place such that the most recent audited financial statements of each fund, along with the regular capital valuation statements and any evidence of any capital transactions are received and regularly reviewed in a timely fashion. We recommend that the Fund also ensures that controls within the financial reporting process are implemented such that the best estimate of the fair value of investments is used in the draft financial statements and that material changes to the investment balances that come to light before signing are reflected in the financial statements. Where the Fund does not have the appropriate resource within its staff, it should provide clear instructions to LPP or</p>	<p>LPPI, as the investment manager for the Fund, maintains an ongoing relationship with all of the individual investment managers. The latest available valuations are included in the pension fund accounts. Problems arose with the preparation of the accounts during 2020/21 due to the impact of the covid pandemic resulting in a sudden fall in asset valuations at the end of March 2020. This situation is not expected to recur.</p>	31 May 2021	Head of Pension Fund	Not applicable.

		the custodian to perform the processes and controls required.				
4.	<b>Retrospective review of investment decision making</b>	In our final report on the 2019 audit we also recommended that the Fund perform a review of the arrangements around pension asset investment decision making, monitoring and reporting of the valuation of those investments. This was to include an historic review of the arrangements with respect to the specific assets that were adjusted significantly to identify the lessons that can be learned and to embed this learning into the new arrangements. The outcome from these reviews was to be reported to both the Corporate Oversight & Scrutiny Panel and the pension Fund Panel. We note that the scope of the work did include these considerations and that the final report was provided to the Authority in July 2020.	The governance of the Pension Fund was restructured in October 2020. All decisions are the responsibility of the Pension Fund Committee. If an urgent decision is required then responsibility is delegated to the Executive Director of Resources.	31 May 2021	Head of Pension Fund	Not applicable.
5.	<b>Review of financial statements</b>	We recommend that the design of the financial statement review control is	Financial statements are now completed in line with the CIPFA checklist.	31 May 2021	Head of Pension Fund	Not applicable.

		amended to include checking to underlying working papers, the completion of a full CIPFA checklist, and is communicated clearly to all those involved in the preparation and review process. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period.				
6.	<b>Review of journals</b>	We recommend that the design of the journal posting review control is amended to include a well-defined scope, for example a checklist. We also recommend that it is communicated clearly to all those involved in the preparation and review process and takes place in a timely manner before journals are posted to the accounting system. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period.	A Borough project plan has been developed to improve the process of journal posting and approval.	31 March 2022	Head of Pension Fund	Will impact in 2020/21

7.	<b>Administration system editing rights</b>	We recommend that the IT system is updated to prevent super-users from editing their own records, that any editing of each other's records is checked by a third person, and that an annual review of the system audit report is conducted to ensure that this control is being implemented and evidenced.	<p>The system used, altair, is maintained by a third party provider, Heywood. The majority of Local Authority Pension Funds use this system and so any system amendments have to be agreed across all system users. Procedures are being developed to ensure super-users do not amend their own records and that where amendments are made to super user records, a third independent person (such as the new Head of Pension Fund) will review. The same person will undertake an annual review of the system audit file to check that all instances of super-user record access are within required controls.</p> <p>With specific regard to the prevention of 'Super-users' editing their own records it would be necessary to liaise with the Fund's heywood Client Manager. Actions are under consideration as to the possibility of using a 'User Specific Filter' facility where super-users' own NI Numbers could be added so</p>	31.8.2021	Head of Pension Fund	Subject to ongoing conversations with system provider.
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			that records access to their own records is set to 'Read Only'.			
8.	<b>No evidence of authorisation for overnight loan prior to payment</b>	We recommend that the Fund implements a control to record and review the rationale for all transactions outside the normal course of business, including consideration of any relevant laws, regulations and conflicts of interest. We also recommend that sufficient appropriate evidence is retained, demonstrating that the control has operated for all such transactions.	This matter has been reported to the Pensions Regulator.	May 2021	Head of Pension Fund	Not applicable.
9.	<b>Separation of the Fund from the Authority</b>	We recommend that the general ledgers of both entities are maintained in isolation. We also recommend that formal documentation is prepared by the Authority to request payments from the Fund, and that this is reviewed by the Fund before payments are made. Furthermore, sufficient appropriate evidence should be retained demonstrating that the control has operated for all such transactions	A project plan is in place for the Pension Fund to have its own ledger account.	1 April 2022.	Head of Finance	Will show as a control observation in the 2020/21 ISA260 report.

10.	<b>Benefit calculations</b>	We recommend that a formal record is retained of the points checked by the reviewer of benefit calculations, that a periodic review of the calculations produced by the benefits system is scheduled and carried out by a suitably qualified person and that contingencies are put in place to ensure benefits controls continue to operate in the event of personnel absences.	<p>As a direct result of the Coronavirus pandemic the process of reviewing and checking inputs has successfully become driven by altair Task Management without the need to print Benefit Summary Documents and Letters. There is not an over reliance on the system, those processing the work and those checking are able to manually check the system output and flag any potential inaccuracies in the system output with the Technical Analyst and Assistant Technical Analyst. Those responsible for checking are knowledgeable in the areas they are responsible for checking.</p> <p>It is acknowledged there was a key period of absence during the year and efforts will continue to be made to build greater resilience into processing all areas of administration and payroll.</p>	Ongoing	Head of Pension Fund	Subject to ongoing conversations with system provider.
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			Altair includes a reportable workflow management system that identifies the stages of an administration process and the user who undertook the relevant task. Heywood, as the system provider, maintains the system on behalf of multiple Pension Fund users and provides system upgrades as required to ensure that the requirements of scheme regulations are met.			
11.	<b>Monthly investments update review delayed</b>	We recommend that the accounting records are updated on a timely basis to ensure management information is sufficiently up to date to correctly inform decision making.	Financial and performance management information is made available on a monthly basis.	31 May 2021	Head of Pension Fund	Not applicable.
12.	<b>IT control – Altair audit trail of changes</b>	We recommend that the annual review of the Altair audit trail include ensuring that completeness of the reports generated for review	Any adjustment to the filtering parameters would need to be undertaken by the system provider, Heywood, and therefore apply to all users of the system.	Ongoing	Head of Pension Fund	Subject to ongoing conversations with system provider.
13.	<b>Administration system – segregation of duties controls</b>	We recommend that controls are implemented within the system to ensure that work prepared must be sent to someone with review responsibilities	Controls have been set up by a super user based on the user profiles contained in the system. However, ongoing discussions will be had with the system	Ongoing	Head of Pension Fund	Subject to ongoing conversations with system provider.



			providers to consider what changes could be made to improve this functionality with the proviso that the system is used by Pension Funds and bespoke amendments may not be financially viable.			
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#### OTHER FINDINGS

14.	<b>Lack of continuity plans in relation to absence of key individuals</b>	We recommend that continuity plans be developed for all key roles within the Fund's operations.	This will be reviewed as part of the ongoing governance review.	31 March 2022	Head of Pension Fund	Not applicable.
15.	<b>Internal audit and monitoring of controls</b>	We recommend that the internal audit function of the Authority is engaged annually to assess the operation of controls at the Fund.	An Internal Audit report for the year 2020/21 that covers Pension Payroll and Administration is near completion.	30 June 2021	Head of Pension Fund	Not applicable.
16.	<b>Compliance with LGPS regulations and the regulator.</b>	We recommend that procedures are developed in response to the requirements, and which ensure that the Fund meets its statutory obligations and regulatory requirements.	The Fund complies with all LGPS regulations and takes notice of all recommendations from The Pensions Regulator. The annual work plan for the Pension Fund Committee includes regular reviews of all statutory policies.	31 May 2021	Head of Pension Fund	Not applicable.
17.	<b>Approach to the pension liability disclosure</b>	We recommend that the Fund takes steps to ensure that all non-trivial	We will discuss with actuary.	31 December 2021	Head of Pension Fund	Not applicable.

		adjustments to the liability are included at each valuation and that it satisfies itself that appropriate procedures are in place at the actuary to cleanse and check the member data used in each valuation.				
18.	<b>IAS 19 cash flows incomplete</b>	We recommend that the cash flow reporting is reviewed carefully and checked for reasonableness against expectations before it is provided to the actuary.	A review process will be put in place and documented.	31 December 2021	Head of Pension Fund	Not applicable.
19.	<b>Lack of procedures to detect subsequent events</b>	We recommend that a process is implemented to consider this up to the date of signing of the financial statements.	Formal procedures will be put in place.	31 December 2021	Head of Pension Fund	Not applicable.
20.	<b>Maintenance of records</b>	It is important that the Fund ensures that adequate records are created and retained to evidence the rationale for all payments leaving the Fund.	Adequate records are maintained although it is not always possible to provide reports in 'unfamiliar' formats.	31 May 2021	Head of Pension Fund	Not applicable.
21.	<b>Bank and custodian mandates</b>	We recommend that all mandates are reviewed and updated accordingly to ensure they are complete and contain only relevant personnel. We also	Mandates have been reviewed and have been updated.	30 April 2021	Head of Pension Fund	Not applicable.

		recommend that they are updated on an annual basis, or as soon as signatories leave office.				
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