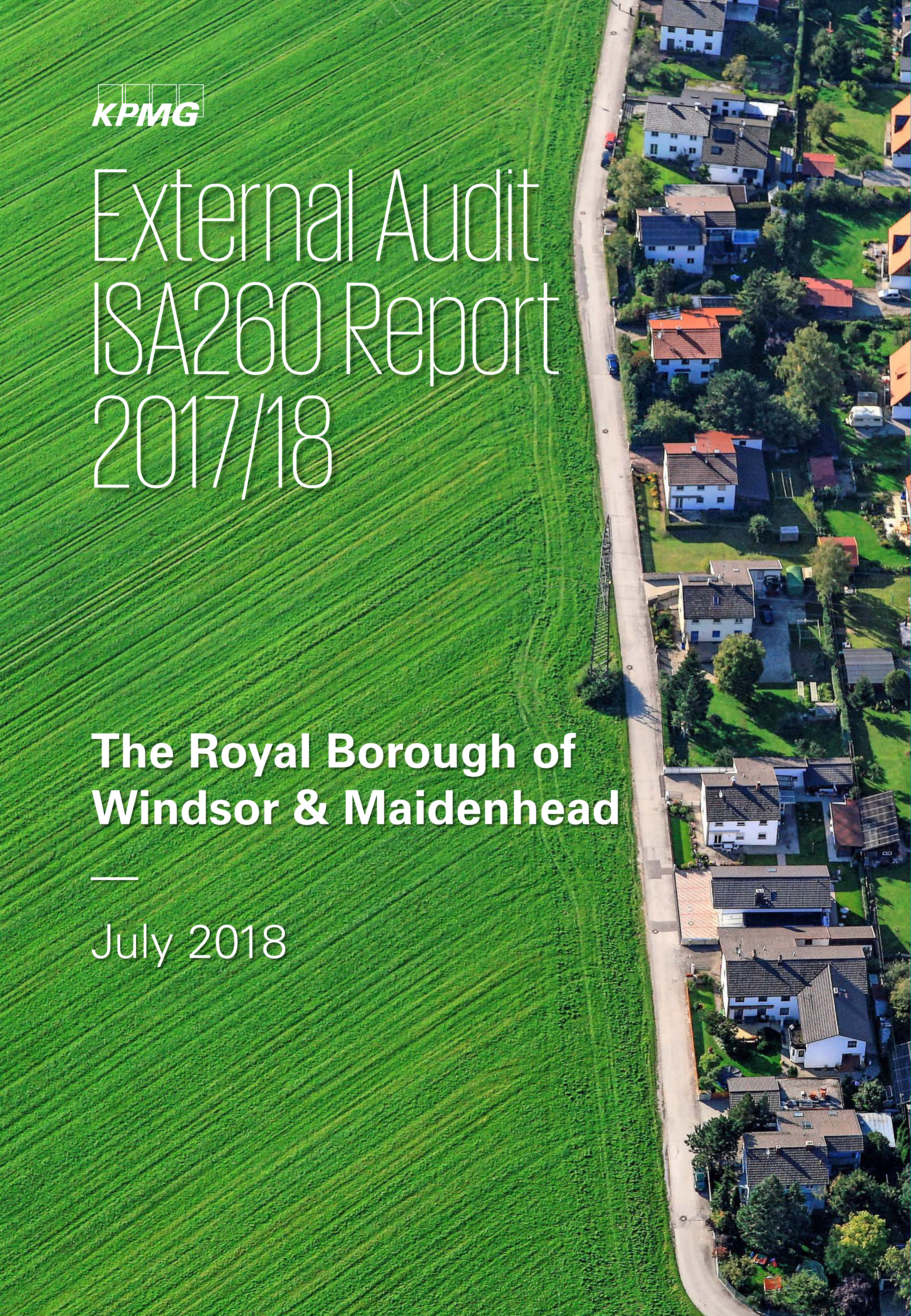


KPMG

External Audit ISA260 Report 2017/18

The Royal Borough of Windsor & Maidenhead

—

July 2018

Summary for Audit & Performance Review Panel

This document summarises the key findings in relation to our 2017-18 external audit at the Royal Borough of Windsor & Maidenhead ('the Authority') and the Royal County of Berkshire Pension Fund.

This report covers our on-site work, which was completed in February and June to July 2018, on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment	We have identified no significant issues with the Authority's organisational control environment and consider that the overall arrangements that have been put in place are reasonable.
Controls over key financial systems	The controls over the majority of the key financial systems are sound and we have not raised any recommendations as a result of our 2017/18 work. Work to fully implement the recommendations we raised in our 2016/17 ISA260 report is still ongoing. We have reiterated the outstanding recommendations in Appendix 1.
Review of internal audit	We have used the work performed by internal audit to inform our risk assessments and audit work. We identified no issues with the work performed by internal audit
Accounts production	Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting. The Authority continues to deliver strong working papers in the necessary timeframes. As the Authority began preparing its financial statements to an advanced timetable in the prior year it was already well placed to meet the new faster close deadlines. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The Authority has continued the progress made following the dry run in 2016/17 and has prepared the accounts to meet the earlier statutory deadlines, whilst maintaining the quality of the financial statements and working papers. This has taken significant effort from the finance team and we would like to thank the team for their support during this period.
Financial statements	**Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.** Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 9): — **Valuation of PPE** – The Authority operates a cyclical revaluation approach to meet the Code requirement that all land and buildings be held at fair value. We have considered how the Authority ensures that assets not subject to in-year revaluation are not materially misstated, as well as reviewing the basis of valuation for those assets that have been revalued. No issues have been identified as a result of this work.

Summary for Audit & Performance Review Panel (cont.)

Financial statements (continued)

- **Pensions Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We have reviewed the processes in place to ensure accuracy of data provided to the Actuary and have considered the assumptions used in determining the valuation. No issues have been identified as a result of this work
- **Group accounts and faster close** – The Authority has successfully managed the process to achieve faster close. To gain assurance over the Authority's group accounts, we obtained and reviewed the draft financial statements of the Authority's associates, Optalis and Achieving for Children (AfC), and have contacted the external auditors of Optalis and AfC to seek assurance from their work on the financial statements. At the time of drafting this report we are in the process of finalising our review of the accounting treatment of the Authority's investment in Optalis and AfC in both the group and Authority accounts.

We did not identify any material misstatements. We have identified one uncorrected audit difference relating to long-standing unreconciled items in the bank reconciliation, which we have reported in Appendix 2. There was also a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

We are now in the completion stage of the audit. We will issue our completion certificate once we have received the Pension Fund Annual Report and completed our work to verify consistency with the audited financial statements. We are expecting the annual report to be available at the end of July. Following this, we will issue our Annual Audit letter.

Pension Fund financial statements

We anticipate issuing an unqualified audit opinion on the Pension Fund's financial statements by 31 July 2018.

Based upon our initial assessment of risks to the Pension Fund financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our interim visit) we have identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 9:

- **Valuation of hard to price investments** – The Pension Fund invests in a range of assets and funds, some of which are inherently harder to value due to there being no publicly available quoted prices. We have verified a selection of investments to third party information and confirmations, with no issues being identified.
- **Valuation of the longevity hedge** – The Pension Fund has in place a longevity insurance policy with ReAssure which is recognised on the Pension Fund's Net Asset Statement. We engaged KPMG actuarial specialists to review the Barnett Waddingham model for valuing the longevity contract and have agreed the appropriateness of the assumptions and the reasonableness of the valuation.

Summary for Audit & Performance Review Panel (cont.)

Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we identified the following significant VFM audit risks:

- **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond those from prior years and also pursue income generation strategies. We reviewed the controls in place to ensure financial resilience, specifically that the Medium Term Financial Plan had duly taken into consideration relevant factors and sensitivity analysis. We considered the way in which the Authority identifies, approves and monitors its budgets throughout the year.
- **Contract management** – As part of its Transformation Programme, the Authority has moved to a new operating model for some services and now delivers Children's Services and Adult Social Care through external providers such as Achieving for Children and Optalis, in which the Authority is a shareholder.

See further details on pages 23 and 24.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help.

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational controls are effective overall.

Aspect of controls	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	2

Key	
1	Significant gaps in the control environment.
2	Deficiencies in respect of individual controls
3	Generally sound control environment.

We have assessed monitoring of controls as a 2 as there were control deficiencies identified again in our 2017/18 work in relation to the preparation and review of control account reconciliations that were originally identified and reported in our *ISA 260 Report 2016/17.*

Controls over key financial systems

The controls over the key financial systems are generally sound.

However, there are some weaknesses in respect of control account reconciliations that we raised in 2016/17 that have not yet been resolved.

Work completed

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

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work we have determined that the controls over the key financial systems are generally sound and we have not raised any additional control weaknesses as a result of our work in 2017/18. Work to fully implement the recommendations raised in our *ISA 260 Report 2016/17* is still ongoing and the outstanding recommendation has been reiterated in Appendix 1.

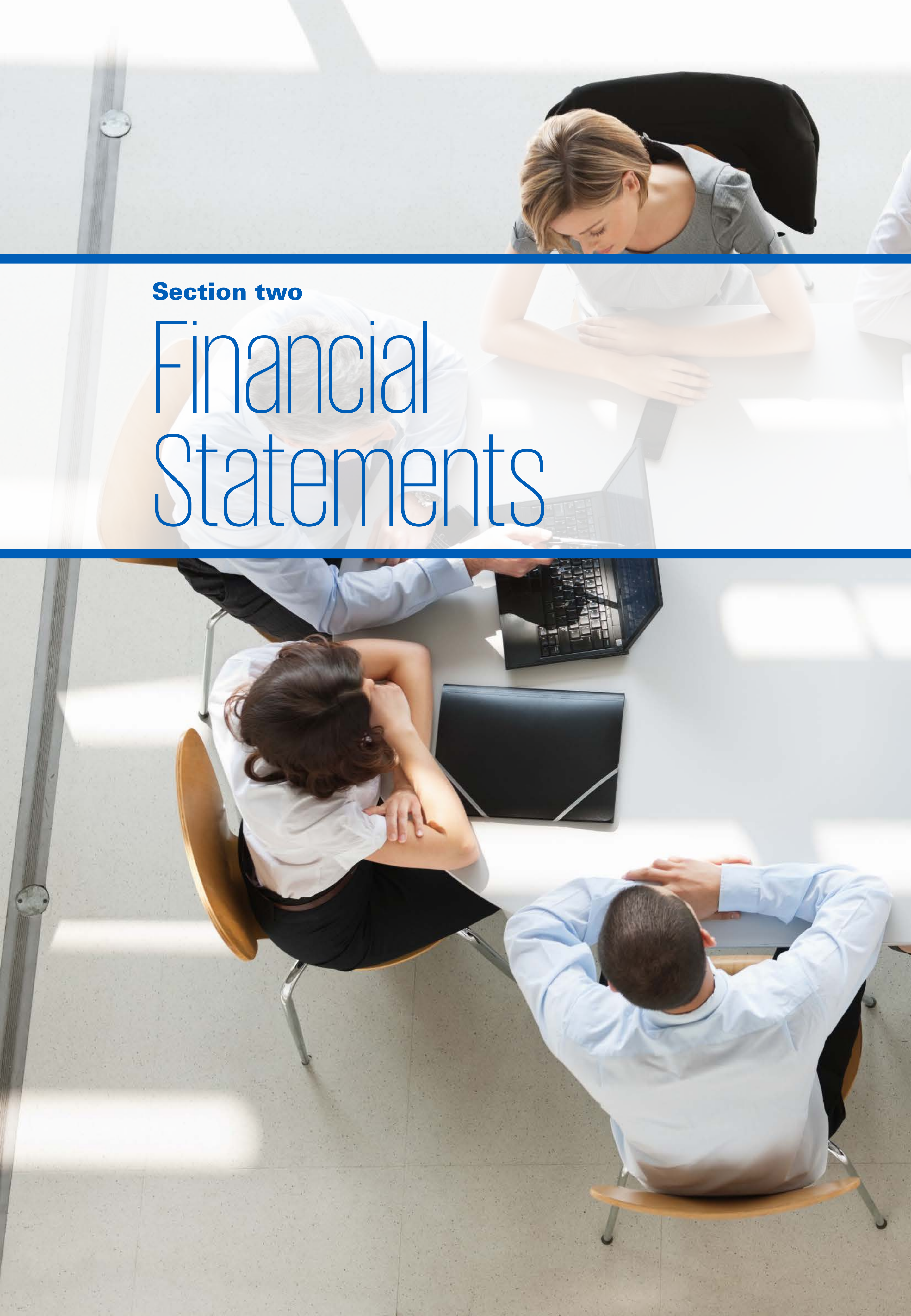
Aspect of controls	Assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	2
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	2
Housing benefits expenditure	3
Business rates income	3
Council tax income	3

Key	
1	Significant gaps in the control environment
2	Deficiencies in respect of individual controls
3	Generally sound control environment

As a result of the control deficiencies identified in relation to the preparation and review of control account reconciliations around payroll and cash, we have assessed the controls for those two systems as a 2.

Section two

Financial Statements



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is good.

The Authority has yet to fully implement the recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Authority continues to deliver strong working papers in the necessary timeframes. As the Authority began preparing its financial statements to an advanced timetable in the prior year it was already well placed to meet the new faster close deadlines.

We consider that the overall process for the preparation of your financial statements is sound. We would like to pay particular thanks to Rob Stubbs and the Finance team for their cooperation throughout the audit.

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

Going concern

The financial statements of both the Authority and the Pension Fund have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority or Pension Fund to continue as a going concern.

Further commentary on the Authority's arrangements in place to secure the effective delivery of budgets is included at page 23.

Implementation of recommendations

We raised three recommendations in our ISA 260 Report 2016/17. The Authority has implemented two of the recommendations in line with the timescales of the action plan. Further details are included in Appendix 1.

Completeness of draft accounts

A complete set of draft accounts was available on 31 May, in line with the statutory deadline.

Quality of supporting working papers

Our Accounts Audit Protocol sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority and the Pension Fund to provide audit evidence in line with our expectations.

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

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the finance team.

Accounts production and audit process (cont.)

Group audit

To gain assurance over the Authority's group accounts, we obtained and reviewed the draft financial statements of Optalis and Achieving for Children and contacted the external auditors of Optalis and AfC to seek assurance from their work on the financial statements. At the time of drafting this report we are in the process of finalising our review of the accounting treatment of the Authority's investment in Optalis and AfC in both the group and Authority accounts.

There were no issues to note in relation to the consolidation process.

Pension Fund audit

The audit of the Pension Fund's financial statements was completed in June to July 2018 with draft financial statements being received by the statutory deadline.

Audit queries relating to the Pension Fund were answered promptly, which helped ensure that we were able to perform our audit within the agreed timeframe.

We brought forward our work on the longevity hedge this year and our experts completed their review of Barnett Waddingham's model and assumptions in May 2018. This enabled us to agree the valuation and the relevant accounting entries ahead of the financial statements being drafted and allowed us to conclude on a high risk area before the main audit started

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements and those of the Pension Fund by 31 July 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

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

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

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

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

02

Fraudulent revenue recognition

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

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

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

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements and those of the Pension Fund.

Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:	**Valuation of PPE** The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in a year differs materially from the year-end fair value. In addition, as the valuation is undertaken as at 1 April (the start of the year), there is a risk that the fair value is different at the year-end.
Our assessment and work undertaken:	We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. In addition, we considered movements in market indices between revaluation dates and the year-end in order to determine whether these indicate that fair values had moved materially over that time. For those assets which have been revalued during the year by Lambert Smith Hampton, the external valuer, we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We also assessed the external valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). As a result of this work we determined that the valuation at year end was reasonable. We have set out our view of the assumptions used in the accounting for Property, Plant & Equipment at page 14.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	**Pension Liabilities** The pension liability represents a material element of the Authority's balance sheet. The Authority is the administering authority of the Royal County of Berkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and the actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact on the pension liability accounted for in the financial statements.
Our assessment and work undertaken:	We reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with over the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of the scheme actuary, Barnett Waddingham. We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Barnett Waddingham. We reviewed the overall Actuarial valuation and considered the disclosures made in the financial statements. As a result of this work we were satisfied that the assumptions applied were reasonable and that the methodology used by the actuary to calculate the pension liability was appropriate and in line with our expectations. We have set out our view of the assumptions used in valuing pension liabilities at page 16.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Group accounts and Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018, however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by June 2017. Whilst this was an advancement on the timetable applied in preceding years, the Authority will be required to produce Group accounts for the first time and further work is required in order to ensure that the statutory deadlines for 2017/18 are met.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, associates and associate auditors) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit & Performance Review Panel meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit & Performance Review Panel meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return and the Pension Fund Annual Report. This is not a matter of concern and is not seen as a breach of deadlines

Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit and ahead of the final audit in order to streamline the year end audit work.

We received draft financial statements by 31 May 2018, in line with the statutory deadline. The quality of this draft was consistent with that of prior years, although there were a number of presentational adjustments in the first draft that were identified by the Finance team, resulting in updated accounts being prepared.

The Authority has successfully managed the process to achieve faster close and we anticipate issuing our audit report by 31 July 2018.

Specific audit areas (cont.)

Significant Audit Risks – Pension Fund

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

Risk:	**Valuation of hard to price investments** The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation. In the prior year financial statements, £840 million out of a total of £1,992 million of investments, or 42%, were in this harder to price category. For year ended 31 March 2018, £855 million out of a total of £2,092 million of investments, or 41%, were in this harder to price category. We have deemed these investments to have significant valuation risk for the purposes of the audit. Whilst the Trustee appoints a third party to value these investments, this control is not one that can be relied on to reduce the level of our audit testing.
Our assessment and work undertaken:	We independently verified a selection of investment asset prices to third party information and obtained independent confirmation on asset existence. We also tested the extent to which the Pension Fund had challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of the figures. No issues were identified as a result of our testing.

Risk:	**Valuation of the longevity hedge** The Pension Fund has in place a longevity insurance policy with ReAssure Ltd to cover a closed group of pensioner members. The Pension Fund pays the policy an annual fixed premium where in return the insurer pays out benefits to the pensioners. The contract is recognised on the Pension Funds' Net Asset Statement and increases in value if the life expectancy of Fund members increases. Therefore, the contract must be kept under regular review to ensure its valuation and disclosure are in accordance with accounting standards.
Our assessment and work undertaken:	We have reviewed the Barnett Waddingham valuation of the longevity contract, which is used in the compilation of the accounts. As in previous years, we have used KPMG actuarial experts to critically assess the methodology and assumptions used by Barnett Waddingham. We are satisfied that the valuation model and the assumptions used are appropriate and that the year end valuation for the longevity hedge is within our expected range.

In addition to the risks set out above, as in previous years, we have received specific requests from the auditors of other admitted bodies for programmes of work to support their audits under the protocols put in place by the PSAA for this purpose. As the work they request is over and above that already planned, there will be additional costs arising from this. The Pension Fund can consider recharging these costs to the relevant admitted bodies.

Judgements - Authority

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	**Audit Difference**
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Provisions (excluding Business Rates)	2	2	The overall level of provisions is not material but has increased slightly in the year, mainly due to additional provisions for future redundancy costs and for back pay for care providers for sleep-in shifts. In the last couple of weeks, the Court of Appeal has overturned the decision on the liability for this back pay, so it is likely that this provision will no longer be needed. We consider the Authority to be on the cautious side of the prudence range and to have sufficient provisions in place. We consider the provision disclosures to be proportionate.
Property Plant & Equipment	3	3	The Authority engaged Lambert Smith Hampton to value its properties in 2017/18. All investment properties are revalued every year, as well as assets held for sale. Investment property valuations increased by approximately £60m, reflecting the impact of regeneration schemes, particularly for Maidenhead golf course. A selection of other land and buildings are revalued during the year if they are due to be revalued as part of the Council's five year programme, or if they are being moved from Assets Held for Sale. The valuation methodology used by Lambert Smith Hampton assesses Value in Existing Use for the majority of land and buildings while investment properties have been valued on the basis of market value. This is in line with the requirements of the Code of Practice on Local Authority Accounting and accounting standards.

Judgements - Authority (cont.)

Subjective area	2017-18	2016-17	Commentary
Valuation of pension liabilities	3	3	The Authority continues to use Barnett Waddingham to provide actuarial valuations of the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.1% change in the discount rate would change the net liability by £9.3 million. The actual assumptions adopted by the actuary fell within our expected ranges as set our below:

Assumption	Actuary Value	KPMG Range	Assessment
Discount rate	2.55%	2.51%	3
CPI inflation	2.30%	2.15%	2
Salary Growth	3.80%	3.65%	3
Life expectancy Current male / female Future male/female	 23.1/ 25.2 25.3/ 27.5	 23.5 / 25.4 22.1 / 23.9	2
Overall assessment			2/3

Judgements - Pension Fund

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	Audit Difference
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Pension Fund: Longevity hedge	2	2	We have reviewed the Barnett Waddingham valuation of the longevity contract, which is used in the compilation of the accounts. We noted that the methodology used by the actuary has been updated from the prior year, in line with our recommendation, and is a much better reflection of the requirements of accounting standard IFRS13.

Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Audit & Performance Review Panel on 30 July.

Audit differences

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

The final materiality (see Appendix 3) for this year's audit was set at £4.6 million. Audit differences below £230k are not considered significant.

We did not identify any material misstatements. We have identified one uncorrected audit difference relating to long-standing unreconciled items in the bank reconciliation, which we have reported in Appendix 2. There was a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that:

- It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Pension Fund financial statements

We anticipate issuing an unqualified audit opinion on the Pension Fund's 2017-18 financial statements following approval of the Statement of Accounts by the Audit & Performance Review Panel on 30 July.

Pension Fund audit

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

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

We did not identify any material misstatements. There were a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

Annual report

The Pension Fund Annual Report has not been prepared yet, and so we are not yet in a position to confirm that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the annual report is 1 December 2018. We will need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report. Once this work is completed, we will be able to issue our audit certificate.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of the Royal Borough of Windsor & Maidenhead and the Royal County of Berkshire Pension Fund for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and the Royal Borough of Windsor & Maidenhead and the Royal County of Berkshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

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

As in previous years, we will be requesting a specific representation that the Authority agrees with the findings of Barnett Waddingham as the Authority's specialist in evaluating the longevity hedge.

Other matters

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

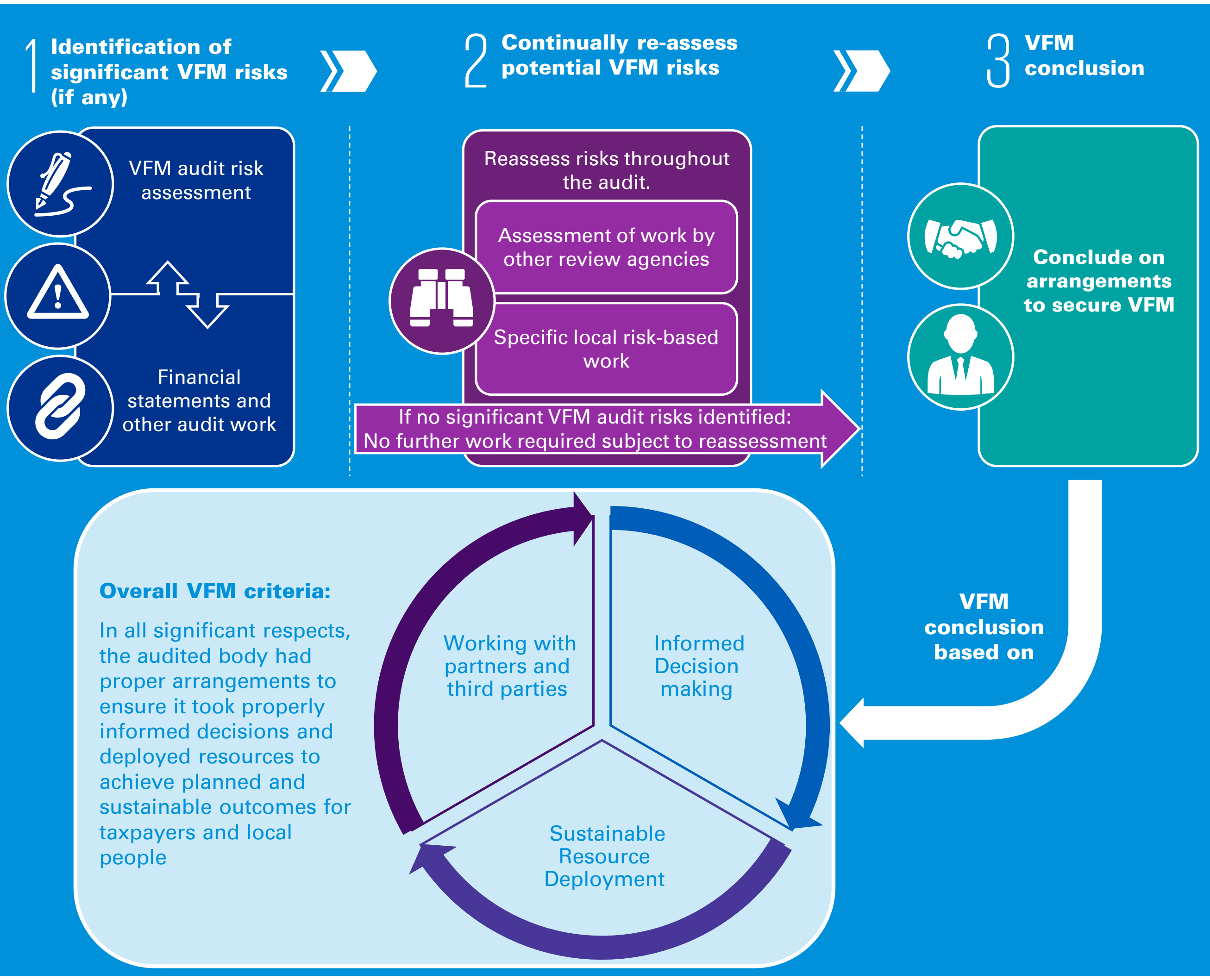
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

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

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

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



Specific value for money risk areas (cont.)

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

Applicability of VFM Risks to VFM sub-criteria			
VFM Risk	**Informed decision making**	**Sustainable resource deployment**	**Working with partner and third parties**
Delivery of budgets	✓	✓	✓
Contract management	✓	✓	✓

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

Specific value for money risk areas (cont.)

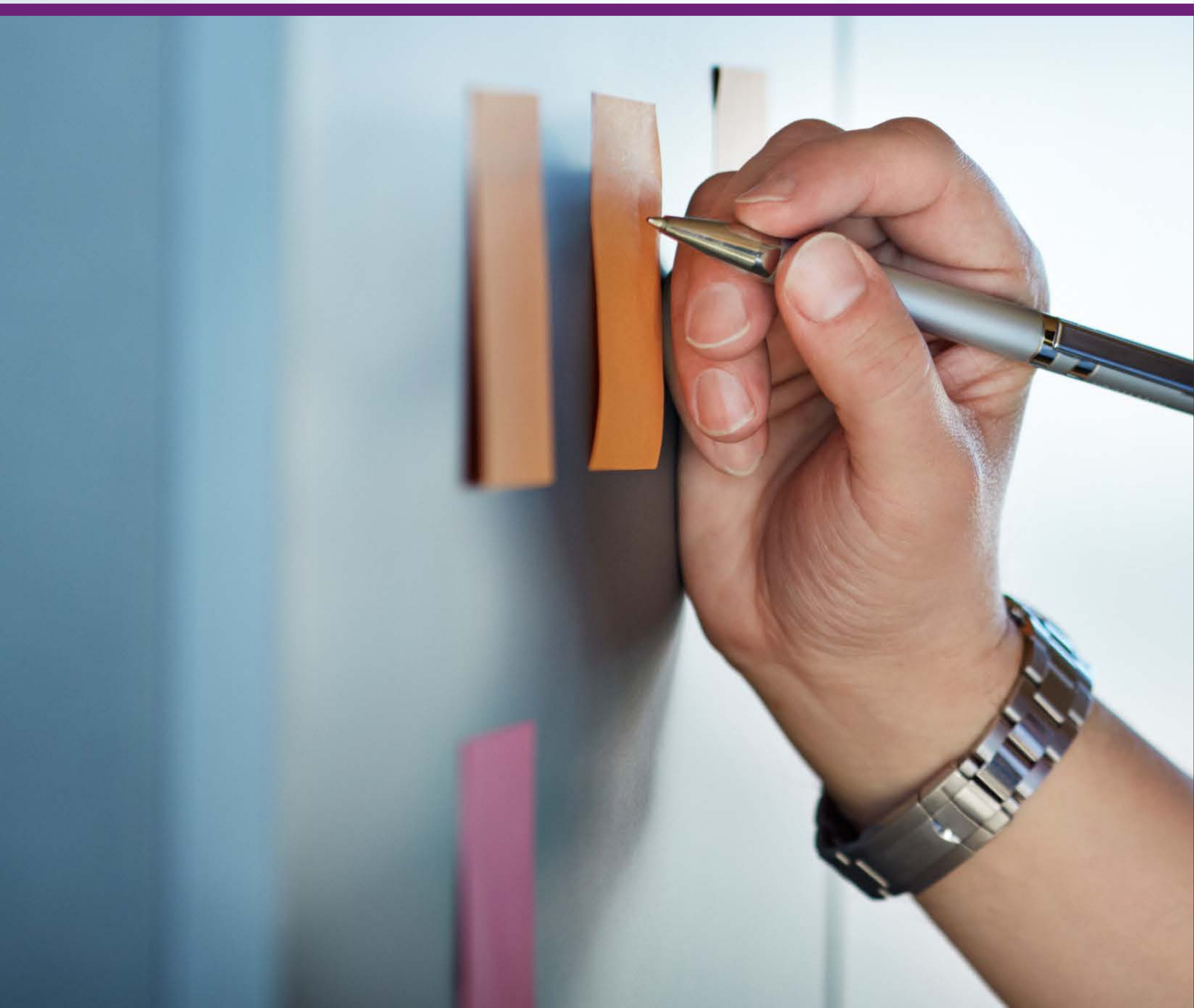
As communicated to you in our *External Audit Plan 2017-18,* we have identified two risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In both cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk:	**Delivery of budgets** The Authority identified the need to make savings of £5.95 million in 2017/18. At the time of drafting our audit plan, the forecast showed that the Authority would deliver an overspend of approximately £0.2 million that would be funded out of reserves. The Authority's budget for 2018/19 was approved at the Council meeting on 20 February and recognised a need for £5.4 million in savings. This will help to address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.
Our assessment and work undertaken:	Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. The Authority reported a small overspend on its approved net expenditure budget for 2017/18, but was able to make an overall contribution to the General Fund of £1.8 million. This enabled the General Fund balance to increase to £7 million as of 31 March 2018. The Authority's MTFP details a balanced budget for 2018/19 including savings of £5.4 million in year, all of which have been identified. The MTFP sets out the budget assumptions and projections until 2021/22. By 2021/22 the net budget requirements is £5m greater than in 2018/19 and is reliant on increasing the council tax base by 2,400 Band D properties. As part of our additional risk-based work, we have reviewed the arrangements the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. On the basis of our testing, we have concluded that there are appropriate arrangements to in place address the specific VFM risk.
Risk:	**Contract management** As part of its Transformation Programme, the Authority has moved to a new operating model for some services and now delivers Children's Services and Adult Social Care through external providers such as Optalis and Achieving for Children, in which the Authority is a shareholder.
Our assessment and work undertaken:	We have considered the arrangements in place for managing the contracts, including arrangements for monitoring the performance of the service, such as through the monthly commissioning meetings, quarterly shareholder Board meetings and Lead Member briefings. Performance is regularly monitored and reviewed in line with agreed measures, which are revised annually. Oversight is provided by both the Adult Social Care Scrutiny Panel and the Children's Overview & Scrutiny Panel. On the basis of our testing, we have concluded that there are appropriate arrangements to in place address the specific VFM risk.

Appendices



Appendix 1:

Follow-up of prior year recommendations

The Authority has not fully implemented all of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	3
Implemented in year or superseded	2
Outstanding at the time of our audit	1

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
1	2	**Control account reconciliations** Our testing of bank reconciliations throughout the year identified that no bank reconciliation had been prepared for December 2016 and that the reconciliation for the March 2017 Summary Account had not been evidenced as prepared and reviewed. In addition, the payroll reconciliation performed is prepared and reviewed by the same person and there is no independent review. Reconciliations are a key part of management's controls over day-to-day operations and failing to complete or review reconciliations increases the risk of fraud or error going undetected. **Recommendation** Complete all expected reconciliations on a timely basis and record evidence of preparation and review by appropriate officers.	Accepted **Owner** Robb Stubbs, Deputy Director and Head of Finance **Deadline** Immediate	During our interim audit in February 2018, we noted that the bank reconciliations for both November and December 2017 had not yet been prepared and the payroll reconciliation was still being prepared and reviewed by the same person. In addition, the Council has identified that there is a balance of £1.02m within cash and cash equivalents that relates to long-standing unreconciled items. The Council will be carrying out a detailed retrospective review to identify what these items relate to and determine how they should be treated, including writing them off if necessary.

Appendix 2:

Audit differences

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

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements.

Adjusted audit differences – Authority

We have not identified any adjusted audit differences for the year ended 31 March 2018.

Unadjusted audit differences - Authority

The following table sets out the uncorrected audit difference we identified by our audit of the Royal Borough of Windsor & Maidenhead's financial statements for the year ended 31 March 2018. This difference is below our materiality level of £4.6m. We have considered the impact of this unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences – Authority (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr Cost of Services £1,023k		Cr Cash and cash equivalents £1,023k			There is a balance of £1.02m within cash and cash equivalents that relates to long-standing unreconciled items. The audit adjustment documented here shows the impact if all those items were written off, however the Council intends to carry out a detailed retrospective review to identify the actual adjustment required. As highlighted in the reiterated recommendation on page 26, the Council should continue to work through the unreconciled items to identify what balances are recoverable and determine how they should be treated, including writing them off if necessary.
	Dr £1,023k	**-**	**Cr £1,023k**	**-**	**-**	**Total impact of adjustments**

Adjusted audit differences – Pension Fund

We have not identified any adjusted audit differences for the year ended 31 March 2018.

Unadjusted audit differences – Pension Fund

We have not identified any adjusted audit differences for the year ended 31 March 2018.

Materiality and reporting of audit differences

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

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in February 2018. Materiality for the Authority's accounts was set at £4.6 million which equates to around 1.7 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit & Performance Review Panel

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

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

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

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £230k for the Authority.

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

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £25 million which is approximately 1.2 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £18.75 million for 2017-18. In the context of the Pension Fund, an individual difference is considered to be clearly trivial if it is less than £1.25 million.

Required communications with the Audit & Performance Review Panel

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 December 2018.
Adjusted audit differences	We have identified no adjusted differences as a result of our audit of the Authority's and Pension Fund's financial statements.
Unadjusted audit differences	We have identified one unadjusted differences as a result of our audit of the Authority's financial statements (see page 27) and no unadjusted difference as a result of our audit of the Pension Fund financial statements.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit & Performance Review Panel	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including confirmation that there were no additional significant deficiencies identified, in Section one of this report (see pages 4 to 6). We have identified no deficiencies in internal control of a lesser magnitude than significant deficiencies.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Members or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 4:

Required communications with the Audit & Performance Review Panel (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. See Appendix 5 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

Appendix 5:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF THE ROYAL BOROUGH OF WINDSOR & MAIDENHEAD AND THE ROYAL COUNTY OF BERKSHIRE PENSION FUND

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to the audit of the Pension Fund is subject to review by an engagement quality control reviewer, who is an Audit Director not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 6, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	81,803	81,803
Audit of the Pension Fund	26,758	33,728
Total audit services	**108,561**	**115,558**
Audit related assurance services	8,000	8,000
Mandatory assurance services	13,439	11,648
Total Non Audit Services	**21,439**	**19,648**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.2:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Appendix 5:

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Teachers Pensions Return and National College of Teaching and Leadership Annual Grant Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	8,000	8,000
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	11,648	13,439

Appendix 5:

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit & Performance Review Panel.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit & Performance Review Panel of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix 6:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £81,803 plus VAT (£81,803 in 2016/17), which is consistent with the prior year.

However, we propose an additional fee of £1,927 due to additional work requested of us by auditors of admitted bodies to the pension fund. This is still subject to PSAA's final determination.

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for August 2018. The planned scale fee for this is £13,439 plus VAT (£11,648 in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements amount to £8,000 plus VAT (£8,000 in 2016/17), see further details below.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Royal Borough of Windsor & Maidenhead)	81,803	81,803
PSAA Scale fee (Royal County of Berkshire Pension Fund)	24,831	24,831
Additional fee in relation to work on behalf of admitted body auditors	1,927	1,574
Additional fee in relation to review of updated longevity hedge model	-	7,350
Total audit services	**108,561**	**115,558**
Mandatory assurance services		
Housing Benefits Certification (work planned for August)	13,439	11,648
Total mandatory assurance services	**13,439**	**11,648**
Audit-related assurance services		
Teachers' Pension Return (work planned for September)	3,000	3,000
Certification of the National College of Teaching and Leadership Annual Grant Return (work planned for December)	5,000	5,000
Total audit-related assurance services	**8,000**	**8,000**
Total non-audit services	**21,439**	**19,648**
Grand total fees for the Authority	**130,000**	**135,206**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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

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