



## **The Royal Borough of Windsor & Maidenhead**

Preliminary planning report to the Audit and Performance Review  
Panel for the year ending 31 March 2019

Issued 4 February for the meeting on 12 February 2019

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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 statement of accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We were delighted to be appointed as the External Auditor for the Royal Borough of Windsor & Maidenhead ('the Authority') for the year-end 31 March 2019. Our first year audit planning procedures are in progress at the date of this report and therefore the matters set out within this document may be subject to change as we finalise those procedures. Where changes are made to this plan, we will report and discuss those with the Audit and Performance Review Panel at your next meeting and we will issue a separate audit plan in relation to the Authority's Pension Fund.

### **Scope of our work**

Our audit work will be undertaken under the requirements of the Code of Audit Practice ('the Code') and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General.

The Code sets the overall scope of the audit, requiring us to give an opinion on the statement of accounts of the Authority, including its pension fund, and a conclusion on the arrangements for value for money. The scope of our work is largely unchanged from the scope of work set for your auditor in the prior year.

For the pension fund specifically, our principal audit objective is to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of the Fund prepared under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

### **Progress of our audit planning procedures**

Our audit planning procedures are in progress. We have reviewed certain relevant documentation and held meetings with officers. However, further work is required to fully document our understanding of the Authority's systems, processes and controls, as well as further meetings with key officers, to enable us to finalise our risk assessment.

For the pension fund, our procedures to date have identified that, as of 1 June 2018, the Fund's investments are managed by the Local Pension Partnership Investments Ltd ("LPPI"). We are also aware that the investments of the Fund are in the process of transitioning to pooled arrangements within the LPP. We will factor this into our audit approach to understanding the investment valuation and reporting controls, and in our approach to testing the valuation of the investments.

At the date of this report we have not yet completed our handover with KPMG. As part of this hand over, we have requested to meet with KPMG and to review their prior year audit files. This meeting has been arranged for February 2019.

# Introduction

## The key messages in this report:

### **Key risks**

The Code requires that the auditor's work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk. As noted above, this work is ongoing, however we have given an indication within this report of potential anticipated significant audit risks based on our procedures to date. We will update the Audit and Performance Review Panel once our risk assessment is finalised and if changes are made to this provisional assessment of risk.

Our description of the potential significant audit risks relevant to the statement of accounts are set out on pages 9 to 11.

### **Brexit**

The arrangements following the UK's exit from the EU are not yet clear. Our audit plan does not include any risks or procedures in respect of the impact upon the Authority, whether on Value-for-Money (VfM) arrangements, or more widely. We will update the Audit and Performance Review Panel if any risks are identified as the eventual circumstances of the UK's exit become clear.

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# Our audit explained

## We tailor our audit to your Authority

### Identify changes in your business and environment

The Authority has a number of regeneration projects that are in progress during the 2018/19 financial period which has increased spend on capital programmes. This will also be the first financial period that the Authority will adopt both International Financial Reporting Standard 15 – Revenue and International Financial Reporting Standard 9 – Financial Instruments.

### Scoping

We anticipate our scope to be in line with the Code of Audit Practice issued by the NAO. More detail is given on the following page.

### In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report, including key audit matters if applicable.



### Determine materiality

We will determine our materiality level following completion of our audit planning procedures. We are currently considering applying an overall materiality level of between 1 and 2% of total assets of the Authority with lower materiality levels set for the Comprehensive Income and Expenditure Statement and the Housing Revenue Account based on 1 – 2% of gross expenditure. We are considering using 1% of Fund net assets as the benchmark for determining our materiality levels for the pension fund audit.

### Significant risk assessment

We have made a preliminary assessment of significant audit risks in relation to the Authority. More detail is given on pages 9 to 11.

### Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of The Royal Borough of Windsor & Maidenhead. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

# Scope of work and approach

We have the following areas of responsibility under the Audit Code:

## Statement of accounts

We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB"), Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO"). The Authority will prepare its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

The Authority prepares group as well as Authority only accounts which consolidate information for two associates (Optalis Limited - 45% interest; and Achieving for Children - 20% interest) on an equity basis.

## Annual Governance Statement

We are required to consider whether there are any inconsistencies between the Annual Governance Statement and the financial statements and information that we are aware of from our work on the statement of accounts, VfM conclusion and other work.

We will also review any reports from relevant regulatory bodies and any related action plans developed by the Authority.

## Whole Government Accounts

We are required to issue a separate assurance report to the NAO on the Authority's separate return required for the purposes of its audit of the Whole of Government Accounts.

## Value for Money conclusion

We are required to satisfy ourselves that the Authority has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

To perform this work, we are required to:

- plan our work based on consideration of the significant risks of giving a wrong conclusion; and
- carry out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VfM.

Our work therefore includes a detailed risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focussed on the risks identified.

We then provide a conclusion on these arrangements as part of our final reporting to you.

# Scope of work and approach

## Our approach

### **Liaison with internal audit**

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified significant control weaknesses, we will consider adjusting our testing so that the audit risk is covered by our work.

### **Approach to controls testing**

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

### **Promoting high quality reporting to stakeholders**

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

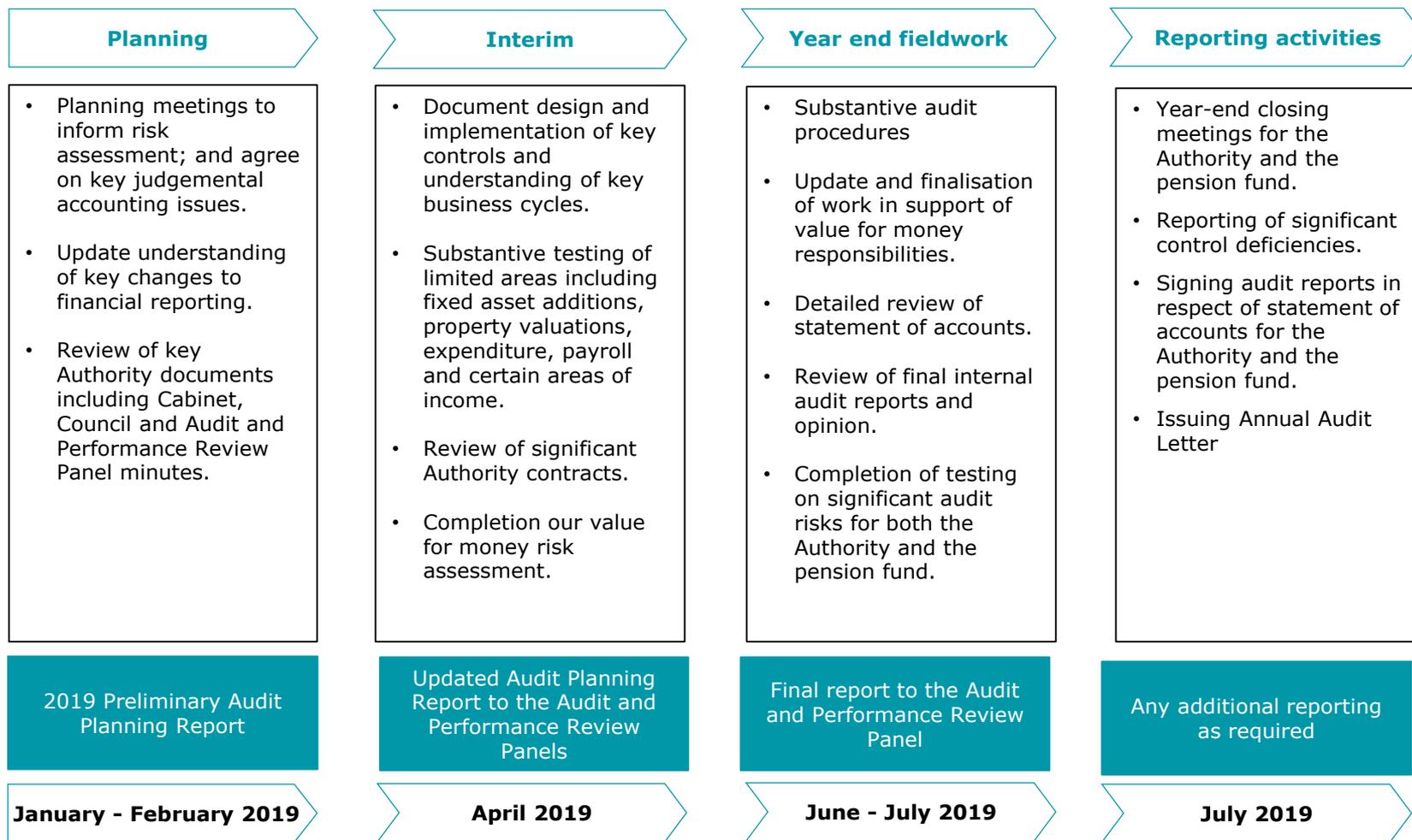
We recommend the Authority complete the Code checklist during drafting of their statement of accounts.

We would welcome early discussion on the planned format of the statement of accounts, and whether there is scope for simplifying or streamline disclosures, as well as the opportunity to review a skeleton set of statement of accounts and early drafts of the narrative report and annual governance statement ahead of the typical reporting timetable to feedback any comments to officers.

# Continuous communication and reporting

## Planned timing of the audit

The following sets out the expected timing of our reporting to and communication with you as it relates to both the Authority and the pension fund:



Ongoing communication and feedback

# Significant risks

## Our risk assessment process

### Introduction

We consider a number of factors when deciding on the significant audit risks. These factors include:

- Our audit planning procedures, which are in progress;
- the significant risks and uncertainties previously reported in the statement of accounts;
- the IAS 1 critical accounting estimates previously reported in the statement of accounts;
- our assessment of materiality; and
- the changes that have occurred in the Authority's operations and external environment since the last statement of accounts.

### Our provisional assessment of significant audit risks for the Authority's Operations and External Environment

Our risk assessment procedures are in progress and therefore our assessment of the significant audit risks may be subject to change.

- **Revenue recognition** - International Standards on Auditing set a rebuttable presumption of the risk of fraud in the recognition of revenue. Whilst our work in this area is on-going, we currently do not anticipate revenue recognition to be a significant risk for local authorities as there are limited opportunities to manipulate the way income is recognised. We therefore expect to rebut the presumption of this presumed significant risk. This is consistent with the approach adopted by your previous external auditor that this is not a significant risk.

- **Valuation of land and buildings** - The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. Valuation of properties can be complex, with small variances in assumptions having a large impact on asset values. There is also a risk that properties not valued in the year, or at the year-end, may have moved materially in value since their last valuation date. We therefore identify this as an area of significant risk of material misstatement.

To address this risk, we will use our internal valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions and methodology used in the year-end valuation of the Authority's Land and Buildings.

We will test the design and implementation of controls in place over the property.

# Significant risks

## Our risk assessment process

- **Capital expenditure** - The capital plans for the Authority incorporate a number of large regeneration projects which extend from 2017/18 into 2018/19 and beyond (18/19 budget: £79.3m, 17/18 actual: £15.5m).

Determining whether or not expenditure should be capitalised can involve judgement. This is an area that has potential to be susceptible to misreporting fraud.

We will review the Authority's capital plans as part of the planning process and discuss with officers potential risks or issues identified.

We will test the design and implementation of controls around the capitalisation of costs and test spending on a sample basis to confirm that it complies with relevant accounting requirements.

We will select a sample of additions in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements.

- **Management override of controls**

In accordance with ISA 240 (UK) management override is always a significant risk. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent statement of accounts by overriding controls that otherwise appear to be operating effectively.

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

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

- **Management override of controls (continued)**

- We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.
- We will review accounting estimates for biases that could result in material misstatements due to fraud.
- We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

In assessing the risk of management override, we will:

- assess the overall position taken in respect of key judgements and estimates; and
- consider our view on the overall control environment and 'tone at the top'.

# Significant risks

## Our risk assessment process

### **Our provisional assessment of significant audit risks for the Authority's Pension Fund**

As we continue to accumulate knowledge of the Fund we have created our provisional risk assessment to reflect those areas which we believe have a greater chance of leading to material misstatement of the financial statements.

At this stage in planning, the significant audit risk will be management override of controls. Auditing Standards require us to assume that management override of controls is a significant risk for all our audits.

Auditing Standards also require us to assume that revenue recognition is a significant risk. We would expect to rebut the revenue recognition risk within the Fund as we consider that there is little incentive or opportunity for revenue (including investment income, transfers and contributions) to be fraudulently misstated and therefore there is limited risk of material misstatement arising due to fraud. This is consistent with our approach to all pension scheme audits.

We will report to you on any other significant risks identified in our final planning report.

# Purpose of our report and responsibility statement

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

### What we report

Our respective responsibilities are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies." The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the NAO Code of Audit Practice. The responsibilities of audited bodies are derived principally the Local Audit and Accountability Act 2014 and from the Accounts and Audit Regulations 2015.

Our report is designed to communicate our preliminary audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our preliminary audit plan, including key audit judgements and the planned scope.

### Use of this report

This report has been prepared for the Audit and Performance Review Panel, 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

### What we don't report

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

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, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the statement of accounts and the other procedures performed in fulfilling our audit plan.

### Other relevant communications

We will update you if there are any significant changes to the audit plan.

**Deloitte LLP**

St Albans | 4 February 2019

# Appendix 1 - Fraud responsibilities and representations

## Responsibilities explained



### Your 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.



### Our responsibilities:

- We are required to obtain representations from your officers regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the statement of accounts as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of valuation of land and buildings, capital expenditure and management override of controls as key audit risks for your organisation.

### Fraud Characteristics:



- Misstatements in the statement of accounts can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the statement of accounts is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

### We will request the following to be stated in the representation letter:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the statement of accounts may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  - (i) officers;
  - (ii) officers who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the statement of accounts.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's statement of accounts communicated by officers, former officers, analysts, regulators or others.

# Appendix 1 - Fraud responsibilities and representations

## Inquiries

We will make the following inquiries regarding fraud:



### **Officers:**

- Officers assessment of the risk that the statement of accounts may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Officers process for identifying and responding to the risks of fraud in the entity.
- Officers communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Officers communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether officers have knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve officers from outside the finance function in our inquiries.



### **Internal audit**

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

### **Those charged with governance**



- How those charged with governance exercise oversight of officers processes for identifying and responding to the risks of fraud in the entity and the internal control that officers have established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

# Appendix 2 - Independence and fees

## Independence

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 Authority and will reconfirm our independence and objectivity to the Audit and Performance Review Panel for the year ending 31 March 2019 in our final report to the Audit and Performance Review Panel.

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### Non-audit fees

There are no non-audit fees other than the £14.5k Housing Benefit work, which is required to be performed by ourselves.

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### 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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## Appendix 2 - Fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2018 to 31 March 2019 are as follows:

	Current year £'000
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	63.0
Audit of pension fund	19.1
<b>Total audit</b>	<b>82.1</b>
Other assurance services – Housing Benefit work	14.5
<b>Total fees</b>	<b>96.6</b>



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