



The Royal Borough of Windsor & Maidenhead

Planning Report to the Corporate Overview & Scrutiny Panel on the audit for the year ended 31 March 2020

Issued 19 May 2020 for the meeting on 27 May 2020

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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 have pleasure in presenting our planning report to the Corporate Overview & Scrutiny Panel (“the Panel”) for the 2020 audit. We would like to draw your attention to the key messages of this paper:

Scope of our work

We note that there are a number of impacts to the audit as a result of Covid-19. These have been summarised later in this paper.

Our audit work will be carried out in accordance with 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 which includes an audit of the accounts of the Council and work to satisfy ourselves that the Council has made proper arrangements to secure value for money (VFM) in its use of resources. There have not been any changes to the Code itself, and therefore the scope of our work is broadly similar to the scope of work set for your auditor in the prior year. A new code will be applicable for next year’s audit.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in “*PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies*”, published by Public Sector Audit Appointments Limited.

Areas of focus in our work on the accounts

At the date of this report, our planning, risk assessment and fraud enquiry procedures are in progress. We have met with key officers, reviewed financial information and completed our interim audit. As part of this, we reviewed the 2018/19 first-year audit with management and have taken steps to embed improvements in our shared ways of working together. Based on procedures performed to date, we summarise below the areas of significant audit risk we have so far identified, these may be subject to change following completion or our remaining planning work. We will update the Panel on any changes to our risk assessment at the next meeting.

- Valuation of properties – there is significant judgement over subjective inputs to the valuation. We note that the investment property portfolio, valued at £131.8m as at 31 March 2019, will present particular valuation complexities for this year end due to the Covid-19 impacts.
- Capitalisation of expenditure – there is judgement over the appropriate classification of spend as capital and not revenue expenditure. This can lead to in-year expenditure being depreciated over time instead of being recognised and expensed fully. This provides an incentive to inappropriately classify spend as capital which does not meet the accounting criteria for classification as such.
- Management override of controls – auditing standards presume there is a risk that the accounts may be fraudulently misstated by management overriding controls. Key areas of focus are: bias in the preparation of accounting estimates; inappropriate journal entries; and transactions which have no economic substance.

Introduction cont'd

Areas of focus in our work on the accounts continued

Auditing standards also presume there is a risk of fraud in revenue recognition. Following an update to our analysis of the Council's income streams, we plan to continue to rebut this presumption. The key factors considered include: the amount of annual income from each source; the transaction size; the extent of any estimates; and the complexity of the recognition principles. Our conclusion is the same as that reached last year. Our audit will include testing of significant income transactions as a result of Covid-19 to the extent that these impact the 2019/20 reporting period.

We will continue to report to the Panel the results of our testing of the RBWM Pension Liability including feedback from Deloitte actuarial specialists. Our risk assessment continues to be underway as, due to updates to the triennial valuation and the status of some ongoing legal cases, more work is likely to be required. Whilst separate from the liability there continues to be increases in levels of risk associated with pension asset testing of valuations at 31 March 2020 due to the volatile movements in the market at that reporting date due to Covid-19. Risk assessment in relation to assets is also ongoing. To the date of this report, we have not identified a significant audit risk in relation to this area of the financial statements. Please see the separate planning report on the audit of the Royal County of Berkshire Pension Fund.

We reported several findings and recommendations for improvements in internal control as part of our 2018/19 reporting. We also reported several misstatements above our reporting threshold. For reference, we have included these prior year findings and the misstatements reported in Appendix 5 and 6 to this report. We will report to the Panel an update on progress against these recommendations in our July report, our ISA 260 report to the Panel.

Areas of focus in our work on VFM

Our 2018/19 conclusion in relation to VFM was a qualified "except for" opinion with exceptions noted in regard to financial governance and financial sustainability and resilience. For reference, we include our prior year conclusion at Appendix 4. This included identification of governance weaknesses at the Pension Fund.

The Code and supporting auditor guidance note require us to perform a risk assessment and to carry out further work where we identify a significant risk.

Our risk assessment to determine the 2019/20 significant risks is at an early stage although we expect the 2018/19 exceptions to remain as significant risk areas for 2019/20. We expect to carry out the majority of our risk assessment procedures in May and June 2020 taking into particular consideration outturn performance against financial and operational metrics including the Medium Term Financial Strategy, the findings and recommendations of the expected CIPFA report on financial governance and the separate report into the governance of the Pension Fund both commissioned to review these arrangements in detail, the findings of internal audit work completed in the latter part of the year and the outcome of any findings from the work of regulators.

We note that the guidance from the NAO in the updated Auditor Guidance Note (AGN 03) directs auditors to consider Covid-19 consequences as an "emerging risk" area impacting the assessment of arrangements for 2019/20 and that this is expected to form part of the risk assessment and evaluation for 2020/21.

Brexit

The arrangements following the UK's exit from the EU have progressed but the full impacts are not yet clear and several areas expected to develop have been placed on hold due the impact of Covid-19.

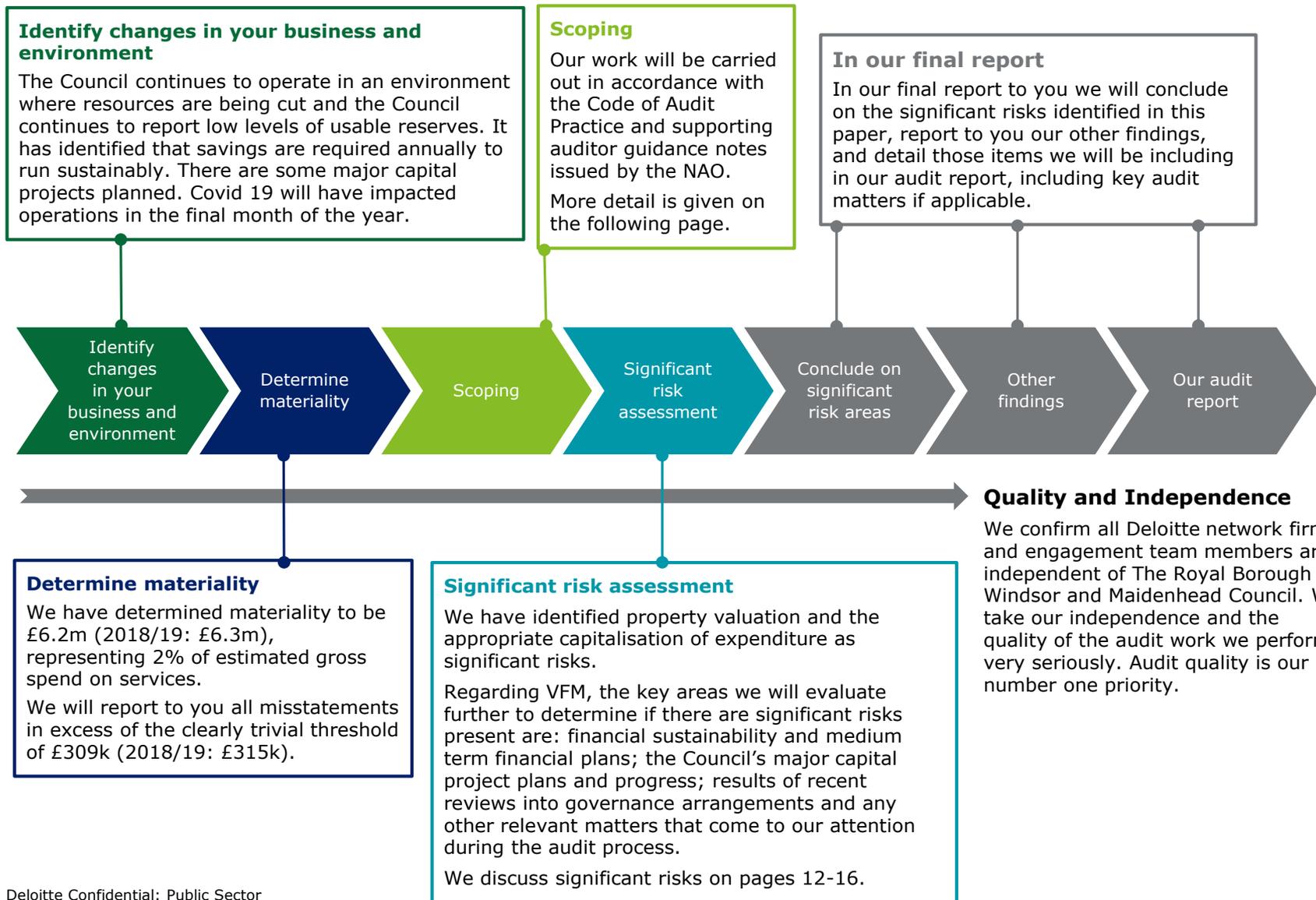
Our audit plan does not currently include any risks or procedures in respect of the Brexit impact upon the Authority. We will update the Panel if any risks are identified as the eventual circumstances of the UK's exit become clear.

Covid-19

The ongoing Covid-19 crisis continues to impact ways of working both for officers, members of the Council and the Deloitte audit team. The situation will have an impact on financial reporting for all local authorities. This includes adjustments to the central timetable for accounts submission. We include further detail on this on pages 7-8 of this planning paper. We have not identified a significant risk in relation to Covid-19 transactions and balances as there is limited impact on 2019/20 figures.

Our audit of the statement of accounts explained

We tailor our audit to your Authority



Scope of work and approach

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

Opinion on the Council's financial statements

We will conduct our audit in accordance with the Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO") and International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB").

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure
- Are prepared properly in accordance with the Code of Practice on Local Authority Accounting ("the Code").

Opinion on other matters

We are required to report on whether other information published with the audited financial statements is consistent with the financial statements.

Other information includes information included in the statement of accounts, in particular the Narrative Report. It also includes the Annual Governance Statement which the Council is required to publish alongside the Statement of Accounts.

In reading the information given with the financial statements, we take into account our knowledge of the Council, including that gained through work in relation to the body's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources.

Whole Government Accounts

For Councils in scope, we are required to issue a separate assurance report on the Council's separate return required to facilitate the preparation of the Whole of Government Accounts. The impacts of Covid-19 on this process are not yet clear although the overall view seems to be this consolidation is required. Our work on the return is carried out in accordance with instructions issued by the NAO and typically focuses on testing the consistency of the return with the Council's financial statements, together with the validity, accuracy and completeness of additional information about the Council's transaction and balances with other bodies consolidated within the Whole of Government Accounts. We are also typically asked to report to the NAO on key findings from our audit of the accounts. The NAO has not yet issued its instructions for the current year.

Value for Money conclusion

We are required to provide a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We carry out a risk assessment to identify any risks that, in our judgement, have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. The risk assessment enables us to determine the nature and extent of further work that may be required. This means that if we do not identify any significant risks, there is no requirement to carry out further work.

We also consider the impact of findings of other inspectorates, review agencies and other relevant bodies on their risk assessment, where they are relevant and available.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by PSAA

Scope of work and approach

Coronavirus (Covid-19) outbreak - How is Deloitte responding?

Deloitte has been closely monitoring and managing our response to the Covid-19 situation since its inception in order to be able to respond as necessary. The health and safety of our people is paramount, but we are doing our utmost to ensure we can complete audits to required timetables. We summarise below how we are responding.

Impact on our audit and our response

We have Business Continuity Plan ('BCP') arrangements which align to ISO 22301. Our BCP for the firm has been enacted to consider and mitigate the impact of Covid-19 across our operations. The health and safety of our people and those we work with comes first. This includes the provision of advice and support to staff and associates, development of response plans, and upgrades to our IT infrastructure to increase capacity for secure remote working.

We have the capability to work remotely with our audited entities, utilising a number of collaboration tools, including Deloitte Connect (a tool that facilitates secure two-way dialogue between the Deloitte team and management to effectively manage engagement co-ordination) and MS Teams allowing us to collaborate and supervise activities.

We have adequate server capacity for all our people to work remotely and technological infrastructure such as our Sharepoint site that we have already been using with officers.

We are in regular contact with regulators as well as other Deloitte Member Firms to co-ordinate and understand the impact locally so we can execute global audits.

Internally, we have travel restrictions in place and the audit is therefore planned to be completed remotely. We are also reviewing team compositions to try to minimise the risk of full teams being disrupted.

Scope of work and approach

Coronavirus (Covid-19) outbreak - Impact on our audit

The first table below reflects some general considerations. The second table reflects some impacts specific to the local government context and how RBWM plan to respond to this.

| Impact on the Council | Impact on the Council's Statement of Accounts | Impact on our audit |
|--|--|--|
| <ul style="list-style-type: none">• Unavailability of personnel.• Disruptions in or stoppages of non-essential business travel.• The closure of facilities• Increase in demand for some services and challenges in delivering such services | <ul style="list-style-type: none">• Principal risk disclosures• Impairment of non-current assets• Allowance for expected credit losses• Fair value measurements based on unobservable inputs• Onerous contracts and provisions arising from contractual penalties• Events after the end of the reporting period | <ul style="list-style-type: none">• Focus on key areas of material change and uncertainty• Resource planning• Timetable of the audit• Logistics regarding travel and meetings with Council personnel. |

Specific changes impacting local government and how the RBWM audit plan will respond (bold text)

The publication date for final, audited, accounts has moved from 31 July to 30 November 2020 for all local authority bodies.

Discussions with management indicate an intention to adhere to the original audit scheduling (see p. 10) which aimed for the majority of work to be completed in June and July 2020. It is acknowledged that within this there may be 1-2 weeks slippage past the 31 July due to potential absences of key staff on both teams and the expected inefficiencies of working remotely. This plan also assumes that third party reports such as the pension report from the actuary and NNDR reports are made available within this timeframe.

There will be disclosure requirements related to the impact of Covid-19.

Management are aware of this. We will evaluate the disclosures made by officers to determine whether they comply with the relevant disclosure requirements.

Audit is to be conducted remotely

Our team will be using technology such as Microsoft Teams to facilitate the delivery of the audit whilst working remotely. We have an established practice with the finance team of transacting information over Sharepoint, our secure information storage portal, from last year's audit where we used this tool.

Potentially heightened risks of fraud

The team have received extra training and will maintain professional scepticism. Management should also consider any gaps in the control framework under the current circumstances giving greater rise to fraud risk.

There may be material uncertainties to disclose in regard to property and other asset valuations

We will evaluate this once the final valuation reports are provided.

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 plan to meet with the Head of Internal Audit to discuss the internal audit work performed and we will review the internal audit reports issued in the period. We will consider the findings from their work and where significant control weaknesses are identified, we consider the impact on the scope of our own work.

Approach to controls testing

For controls considered to be 'relevant to the audit', our work involves evaluating the design of these controls and determining whether they have been implemented ("D & I").

We do not expect to place reliance on the operating effectiveness of controls in the current year.

Our assessment of the internal control environment has not been concluded. We will report to the Panel any findings arising from further procedures.

We will consider any major changes to IT systems in year. This forms part of our ongoing risk assessment of IT systems and will involve Deloitte IT specialists as required.

Materiality

The audit partner has determined materiality as £6.2m, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.

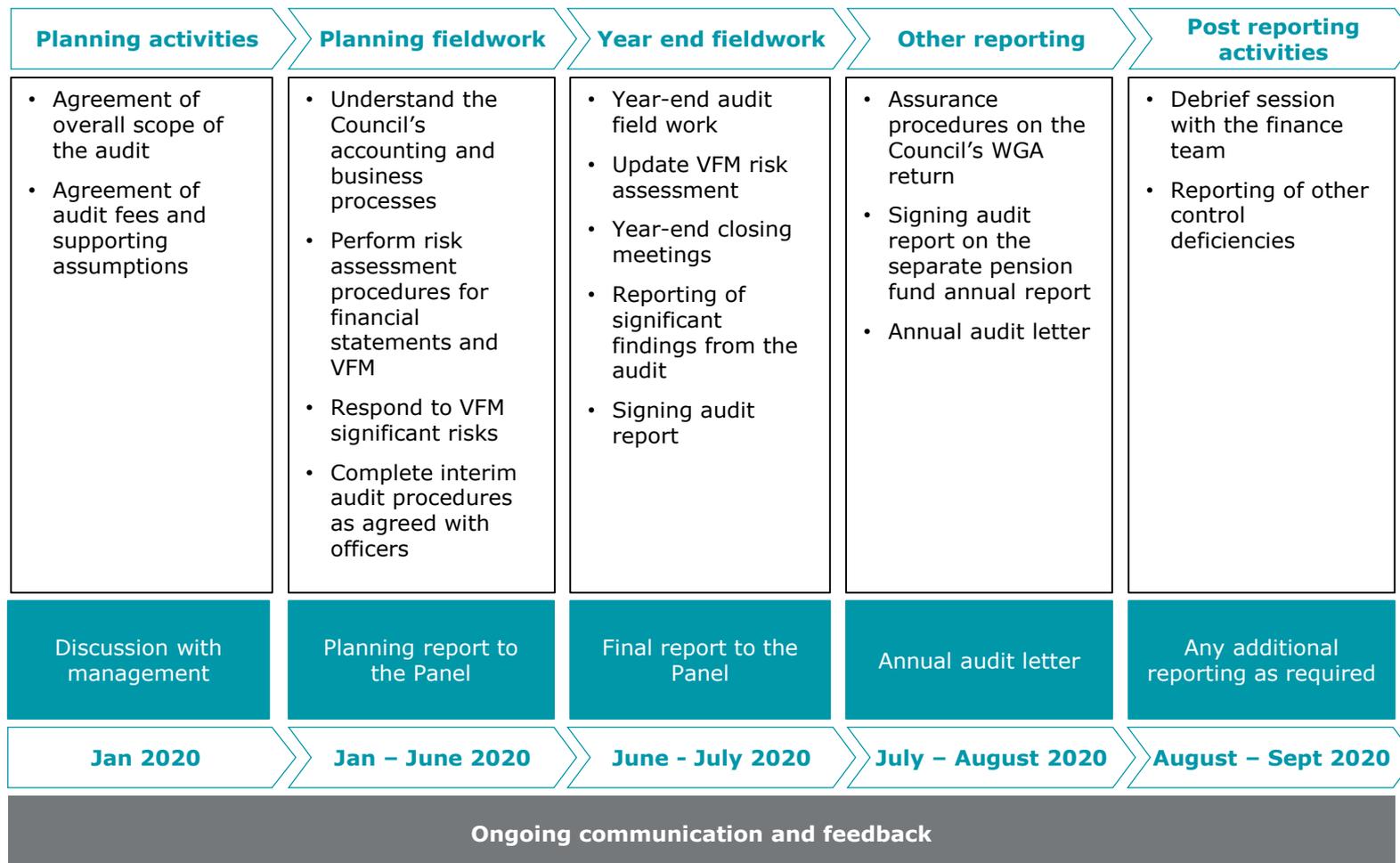
We have used 2% of gross spend on services, adjusted to remove the effect of impairments and reversals of impairments against properties, as the benchmark for determining materiality as this is an area of focus for users of the accounts. This assessment was based on forecast figures at the planning stage and will be revisited on receipt of final figures. Any change will be communicated to the Panel.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.

We note the planned schedule below has been impacted by Covid 19. See pages 7-8 for further detail, in particular the second table on page 8. The chart below reflects the standard, non-Covid 19 impacted timescale for the audit.



Significant risks – statement of accounts

Our risk assessment process

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

- the significant risks and uncertainties previously reported in the narrative report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

Deloitte view

IAS 1 requires entities to make disclosures about the assumptions it has made about the future and other major sources of estimation uncertainty at the year end that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

If a matter does not meet this criterion, it should not be included in the disclosure on sources of estimation uncertainty.

In the 2018/19 Statement of Accounts, the Council identified key sources of estimation uncertainty with regard to property valuation and the estimation of the pension liability.

IAS 1 Critical accounting judgements and estimates (as disclosed in prior year Statement of Accounts)

- Accounting for Schools – Balance sheet recognition of schools
- Property valuation
- Pension liability assumptions

Current year developments

- Continued expansion of planned capital projects
- Impact of Covid-19
- Risks around future levels of funding

Prior year significant audit risks (financial statements)

- Valuation of PPE
- Capitalisation of expenditure
- Management override of controls

Presumed risk of fraud in revenue recognition

Auditing standards also presume there is a risk of fraud in revenue recognition. Following an analysis of the Council's income streams, we have rebutted this presumption. The key factors considered include: the amount of annual income from each source; the transaction size; the extent of any estimates; and the complexity of the recognition principles. Our conclusion is the same as that reached by our predecessor last year.

Significant audit risks

Risk 1 – Property Valuation

| | |
|------------------------|---|
| Risk identified | <p>The Council held other land and buildings of £293.9m (PY: £283.9m) and commercial investment property of £131.8m (PY: £135.3m) at 31 March 2019 which are required to be recorded at current or fair value at the balance sheet date.</p> <p>We note the Council has changed their valuation expert from Lambert Smith Hampton (“LSH”) to Kempton Carr Croft (“KCC”). In prior years, there have been valuation sign offs at different date points in the year. The plan for 2019/20 is to have all reports signed off at 31 March 2020 to ensure any changes to that date are captured. Due to Covid-19, 31 March presents a particularly volatile time for valuation of assets and there is a strong likelihood that KCC will include a material uncertainty disclosure in their report to management. We will assess this report once it is provided.</p> <p>Key judgements include:</p> <ul style="list-style-type: none">• Whether there has been a material change since the date of the last valuation;• In the valuation of schools, appropriate selection of the location and design of modern equivalents; and• Adjusting valuations for any Covid-19 impacts in particular in relation to commercial investment property. |
| Our response | <p>We will test 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.</p> <p>We will obtain an understanding of the approach adopted to the valuation, including assessing the valuer’s qualifications, objectivity and independence and reviewing the methodology used.</p> <p>We will use our valuation specialists, Deloitte Real Estate, to review the methodology and approach and to challenge the appropriateness of the year-end valuation, focusing on the key subjective inputs. We will use this to challenge whether the valuation movements are consistent with expectations seen in other data regarding the property market.</p> <p>We will test a sample of inputs to the valuation.</p> <p>We will test a sample of revalued assets and reperform the calculation of the movement to be recorded in the financial statements to check that it was correctly recorded.</p> <p>We note there are likely to be aspects of the property valuation exercise that have a greater degree of uncertainty linked to them as at 31 March 2020 due to the impact of Covid-19. This will be evaluated as part of our property valuation work involving property specialists from Deloitte Real Estate.</p> |

Significant audit risks

Risk 2 – Capital Expenditure

| | |
|------------------------|--|
| Risk identified | <p>The Council has a capital programme of £49.2m over the next three years, and incurred £35.8m on property, plant and equipment and £15.9m on revenue expenditure which, for funding purposes, is treated in the same way as capital expenditure (REFCUS) in 2018/19.</p> <p>Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.</p> <p>The Council has greater flexibility of the use of revenue resource compared to capital resource. There is also, therefore, an incentive for officers to misclassify revenue expenditure as capital. We have therefore identified classification of capital expenditure as a fraud risk in the financial statements.</p> |
| Our response | <p>We will test the design and implementation of controls around the capitalisation of costs.</p> <p>We will select a sample of capital items (including REFCUS) in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements. This sample will include Assets Under Construction.</p> |

Significant risks

Risk 3 – Management override of controls

Risk identified

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

The key judgments in the financial statements are those which we have selected to be the significant audit risks; capitalisation of expenditure and valuation of the Authority's estate. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Our response

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. We do this by using computer-assisted profiling to identify journals which have characteristics of increased interest. We will then test the appropriateness of journal entries selected through this profiling activity, and other adjustments made in the preparation of financial reporting.
 - We will review accounting estimates for evidence of bias that could, in aggregate, result in material misstatements due to fraud. Other areas of estimation in addition to the above include provisions (of which the most significant is the provision for NNDR appeals), bad debt provisions and estimation of depreciation based on a selection of useful economic lives.
 - 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.
 - We will consider whether the conditions resulting from Covid-19 impact the level of risk associated with potential frauds and adjust our procedures accordingly.
-

Value for money conclusion

Our risk assessment process and significant risks

We are required to provide a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Code and supporting auditor guidance note 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.

Our risk assessment procedures include:

- Reading the Annual Governance Statement.
- Considering local and sector developments and how they impact on the Council.
- Enquiries with senior officers.
- Reviewing reports issued by internal audit.
- Reviewing other documentation of the Council including budget setting reports, financial and operational performance monitoring reports.
- Reviewing reports issued by regulators.
- Understanding the arrangements in potential areas of significant risk – in particular the planning of the Council's finances and major capital projects.
- Review of effectiveness of working with partners and third parties including subsidiary entities.

- Reviewing other reports into governance arrangements at the Council produced by other experts such as CIPFA.
- Evaluation of progress against weaknesses identified in the prior year and assessing the extent to which management have implemented the recommendations raised.

Our risk assessment to determine whether there are any further significant risks is ongoing, in particular to update for the findings of internal audit work completed in the latter part of the year, outturn performance against financial and operational metrics and the outcome of any findings from governance reviews. We expect to include as significant risks the exceptions reported in the prior year in relation to financial governance and financial sustainability and resilience.

We note that the NAO guidance indicates a low likelihood that Covid-19 consequences will form a risk area impacting the assessment of arrangements for 2019/20 but that this will form part of the risk assessment and evaluation for 2020/21. The response to Covid-19 is described as an "emerging risk" in this guidance (rather than a significant risk) unless clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the 2019/20 financial year.

We expect to carry out the majority of our risk assessment procedures in May and June 2020 taking into particular consideration outturn performance against financial and operational metrics including the Medium Term Financial Strategy, the findings and recommendations of the expected CIPFA report on financial governance and the separate report into the governance of the Pension Fund both commissioned to review these arrangements in detail, the findings of internal audit work completed in the latter part of the year and the outcome of any findings from the work of regulators.

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 establish our respective responsibilities in relation to the audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our audit plan, including key audit judgements and the planned scope.

Use of this report

This report has been prepared for the 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.

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

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 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, 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 | 19 May 2020

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:

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 Panel for the year ending 31 March 2020 in our final report to the Panel.

Non-audit fees

There are no non-audit fees expected for 2019/20.

The scale fee for the Council audit is £62k. Following recent discussions with both the Council and PSAA, there are expected to be increases in this fee for both 2019/20 and 2020/21. We will confirm final fee levels to the Panel once these have been agreed.

Independence monitoring

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. 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 Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

Appendix 3 - UK exit from the EU

Navigating uncertainty – key questions for the Panel



Is the Council set up to navigate the change?

Have you assessed the impact of potential changes and identified key decision points?

Does your assessment include how Brexit could impact on your customers, supply chain and people?

Will additional financing facilities be needed?

Have you defined the options there are to respond? E.g. scenario or contingency planning?

Are you monitoring developments and are you ready to act proportionately at the right time?

Are all the right people involved? Does this include discussion with key stakeholders?

Are channels of communication clear, both internally and externally, and have company spokespeople been fully briefed?

FRC Letter to CFOs and Audit Committee Chairs, October 2018:

“We encourage companies to provide disclosure which distinguishes between the specific and direct challenges to their business model and operations from the broader economic uncertainties which may still attach to the UK’s position when they report. Where there are particular threats, for example the possible effect of changes in import/export taxes or delays to their supply chain, we expect these to be clearly identified and for management to describe any actions they are taking, or have taken, to manage the potential impact. In some circumstances this may mean recognising or remeasuring certain items in the balance sheet.

The broad uncertainties that may still attach to Brexit when companies report will require disclosure of sufficient information to help users understand the degree of sensitivity of assets and liabilities to changes in management’s assumptions.”

Appendix 3 - UK exit from the EU

Navigating uncertainty – key questions for the Panel



Impact on internal planning, forecasting and strategy

Is management using forward-looking indicators such as forward bookings, contact conversion rates and supplier forward pricing?

Is there a significant impact from foreign exchange changes and volatility?

Have cash reserves, financing requirements and longer term viability all been assessed?

Have opportunities as well as risks been considered?



Impact on internal and external audit

Should the scope and plan for internal audit be amended to include contingency planning, or testing key risk indicators?

Should internal audit be asked to perform work on longer term viability?

Is there an impact on critical accounting judgments and areas of estimation uncertainty that need to be discussed with the external auditor?



Impact on external reporting

Will disclosures on principal risks and uncertainties need to be revisited now Article 50 has been triggered and the draft Withdrawal Treaty has been published.

Does longer term viability statement account for the fact that the end of the exit negotiation period is now within the lookout period?

Have you developed a plan for appropriately detailed disclosure in management commentary or in the Statement of Accounts?

Appendix 4 – 2018/19 Wording of VFM conclusion

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

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

Qualified Conclusion:

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in December 2017, with the exception of the matters reported in the basis for qualified conclusion paragraph 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 2019.

Basis for qualified conclusion

The Authority has described issues in its Annual Governance Statement ("AGS") that indicate weaknesses in arrangements over both financial governance and financial sustainability and resilience.

Regarding financial governance, the following weaknesses have been identified:

- The AGS describes inadequate resourcing of key governance functions and the development of an organisational culture where responsible individuals did not feel empowered or encouraged to speak out when issues arose.
- Weaknesses have been identified in the robustness of the annual review of the effectiveness of the governance framework including the system of internal control.
- The AGS notes evidence of spend occurring that had not been through the required approval process and was therefore "ultra vires" – outside the scope of the Authority's powers; and that there is evidence of lack of appropriate challenge from officers.
- There is evidence of weaknesses in critical financial governance reports such as budgets and budget monitoring, the Capital Programme, the Medium Term Financial Plan and Treasury Management policies indicating these documents did not comply with requirements and were inadequate.
- The audit identified weaknesses in the system of governance and internal control in relation to the Royal County of Berkshire Pension Fund investments and the Fund's evaluation and monitoring of the controls in place at the service organisations it uses. Arising from the audit, material adjustments were made that reduced the valuation of the asset portfolio.

The authority is currently undergoing structural change to address some of these issues but this was not in place by 31 March 2019. We understand CIPFA have urgently recommended that an additional detailed review of these arrangements is undertaken once this action plan is in place and that a further report on these arrangements is due in March 2020. This report was not available to consider as part of this conclusion.

In relation to financial sustainability and resilience, the following weaknesses have been identified:

- The AGS notes significant volatility in financial performance including large overspends, budget divergences and the resulting depletion of the Council's reserves and cash levels. In particular, the AGS describes inadequate management of the capital budget and issues with social care functions. The final outturn indicated a variance to budget of £4.1m at the net cost of service line with budget at £79.4m (2017/18: £80.8m) versus actual of £83.5m (2017/18: £81.4m). However, as noted in the AGS, during the year there was greater divergence from budget. Council finances had at one point, "a forecast £8m budget overspend." At this stage of greatest divergence, "non-earmarked revenue reserves reached a low point of £7.4m."
- There is evidence that the Medium Term Financial Planning ("MTFP") process is limited and does not reflect best practice. In the MTFP, potential savings of £4.2m are required in 2020/21 based on current assumptions but there is no explanation given of how these will be achieved. Overall, there is evidence of weaknesses in budgeting processes at the authority and in monitoring of financial performance.

The issues noted above are evidence of weaknesses in proper arrangements for planning and governing finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Appendix 5 – Prior Year Control observations

During the course of our 2018/19 audit we 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 and that we have concluded are of sufficient importance to merit being reported to you.

| Area | Observation |
|--|--|
| Quality of draft financial statements | <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">• Findings regarding the compliance of the narrative report and annual governance statement with the CIPFA code• The non-receipt of a completed CIPFA disclosure checklist accompanying the financial statements subject to audit• Inconsistencies between notes in the financial statements;• Accounting policies not updated for the adoption of IFRS 9 and IFRS 15;• Accounts disclosures not updated for the adoption of IFRS 9;• Accounts disclosures not updated for the adoption of IFRS 15;• Differences between primary statements and notes; and• Differences noted during our call and cast process <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">• 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;• documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts;• review of the completed CIPFA disclosure checklist;• documented and reviewed internal checks of internal consistency;• completion of the CIPFA “pre-audit checks on draft year-end accounts” checklist; and• documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers. <p>We note the final amended report is satisfactory.</p> |

Appendix 5 – Prior Year Control observations (continued)

| Area | Observation |
|---|---|
| New accounting standards – IFRS 9 and 15 | <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> |
| Preparation for IFRS 16 | <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> |
| Accounting for acquisitions | <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> |

Appendix 5 – Prior Year Control observations (continued)

| Area | Observation |
|--|--|
| Valuation of properties | <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> |
| Classification of expenditure as capital | <p>We are required to test the design and implementation of controls in place to mitigate the risk that expenditure that is revenue in nature could be incorrectly classified as capital expenditure. Management have described the process and controls in place to mitigate this risk. This includes the establishment of budgets and associated codes to record capital and revenue expenditure; review of invoice descriptions and comparison to budget and purchase order details to check the nature of the expenditure; and review of the budgets to assess and investigate variances.</p> <p>Based on the descriptions provided, these controls appear to be designed effectively and we note that our substantive testing of a sample of capital items has not identified any issues. However, management review controls are inherently difficult to evidence and, as with many entities, we were not able to obtain sufficient documentary evidence of the performance of some of these review controls to enable us to conclude that the controls are implemented effectively. We therefore recommend that management puts in place arrangements to further develop these processes with clear documented evidence of the performance of the controls.</p> |
| Reclassification of assets under construction when complete | <p>We identified that an item of assets under construction was completed as at 31/03/2018. This asset was however not transferred out of assets under construction into the category of property, plant and equipment to which it relates.</p> <p>We recommend the Council implements a control where assets held under construction are reviewed in order to verify whether or not they are complete.</p> |
| Management override of controls | <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>There are further findings of this nature reflected in our work on VFM. See details from page 14.</p> |

Appendix 5 – Prior Year Control observations (continued)

| Area | Observation |
|---|--|
| Accounting for capital expenditure | <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> |
| Bank and cash | <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> |
| Elimination of internal recharges | <p>Internal recharges should be eliminated from the presentation of income and expenditure in the Comprehensive Income and Expenditure Statement. As set out on page 29, 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> |
| Pension Asset investments | <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> |

Appendix 5 – Prior Year Control observations (continued)

| Area | Observation |
|---|---|
| Preparation of accounting papers | <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> |
| Accounts closure | <p>As described on page 3 of this report, 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.</p> <p>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> |

Appendix 5 – Prior Year Control observations (continued)

| Area | Observation |
|---|--|
| Improvements to the valuation exercise | <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">• 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.• 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.• 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.• 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.• 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.• 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. <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> |

Appendix 6 – Prior Year Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements were identified in the prior year. Uncorrected misstatements to date increase total comprehensive expenditure in the CIES by £6.0m, decrease net assets by £6.0m, and decrease usable reserves by £6.0m.

| | | 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 |
|---|-----|-------------------------------|--|---|---|---|
| Misstatements identified in current year | | | | | | |
| Accounting for outcome of McCloud judgement | [1] | 3.4 | (3.4) | - | 3.4 | |
| Reconciling items in bank reconciliation | [2] | 1.0 | (1.0) | - | 1.0 | Yes |
| Debtors with credit balances | [3] | - | 0.5/(0.5) | - | - | |
| Interest cost included in Modern Equivalent for the revalued school | [4] | 1.6 | (1.6) | - | 1.6 | |
| Misstatements identified in prior years | | | | | | |
| Asset under construction not reclassified in prior period | [5] | - | 0.7/(0.7) | - | - | Yes |
| Total | | 6.0 | (6.0) | - | 6.0 | |

- (1) Based on the outcome of the actuary's review of the impact of the McCloud judgement on pension liabilities an adjustment of £3.4m has been identified.
- (2) This relates to long outstanding reconciling items for which we were not provided any support.
- (3) Debtors with credit balances of £0.5m identified during our testing that should be reclassified to creditors.
- (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.
- (5) An item of assets under construction totalling £0.7m completed in the previous financial year was not transferred from this category to the relevant category of property, plant and equipment to which it relates.

Appendix 6 – Prior Year Audit adjustments

Corrected misstatements

The following misstatements were identified in the prior year and 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.

| | | Debit/ (credit) CIES £m | Debit/ (credit) in net assets £m | Debit/ (credit) prior year reserves £m | Memo: Debit/ (credit) reserves £m | If applicable, control deficiency identified |
|---|-----|-------------------------------|--|---|--|---|
| Misstatements identified in current year | | | | | | |
| Eliminate internal recharges | [1] | 33 / (33) | - | - | - | Yes |
| Difference in opening cost and accumulated depreciation | [2] | - | 44/(44) | - | - | Yes |
| Accounting treatment for investment in associate | [3] | (7.8) | 7.8 | | | |
| Items in bank reconciliation that should be in ledger | [4] | | 5.7/(5.7) | | | |
| Adjustments in relation to the valuation exercise | [5] | (6.6) | | | 6.6 | |
| Misstatements identified in prior years | | | | | | |
| Incorrect classification of prior year Teachers Pay | [6] | 3.9/(3.9) | - | - | - | |
| Total | | (14.4) | 7.8 | - | 6.6 | |

- (1) Internal recharges have been incorrectly included gross in income and expenditure in the Comprehensive Income and Expenditure Statement. This adjustment nets down the recharge income against the matching expenditure item.
- (2) The adjustment relates to an equal and opposite difference of £44m between opening cost/valuation and accumulated depreciation
- (3) The adjustment relates to the correction of the accounting treatment for an investment in associate
- (4) The bank reconciliation was performed as at Friday 29 March. Items in the bank reconciliation occurring between 29 and 31 March needed to be reflected in the ledger.
- (5) Amounts were credited to the revaluation reserve where the credit should have reversed prior impairment and therefore been posted to the CIES surplus/deficit and carried to the Capital Adjustment Account.
- (6) The council had incorrectly classified payroll expenses between the categories "Direct employee costs" and "Teachers pay" in the prior period.



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