



PUBLIC SECTOR

**Annual Audit  
Letter 2008/09  
DRAFT**

Royal Borough of Windsor  
& Maidenhead

30 November 2009

AUDIT

# Content

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This report is addressed to the Council and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document. External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Thomas, who is the engagement partner to the Authority, telephone 029 2046 8205, email [neil.thomas@kpmg.co.uk](mailto:neil.thomas@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## Executive Summary

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### Purpose

This Annual Audit Letter (the Letter) summarises the key issues arising from our 2008/09 audit at the Royal Borough of Windsor & Maidenhead (the Council). Although this Letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The Letter will also be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). It is the responsibility of the Council to publish the letter on its website at [www.rbwm.gov.uk](http://www.rbwm.gov.uk). Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance. A summary of our key recommendations is set out in Appendix 1. We have reported all the conclusions in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 2.

### Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*) which requires us to review and report on your:

- *use of resources* - whether you have made proper arrangements for securing economy, efficiency and effectiveness (value for money) in your use of resources (UoR). Our work is summarised in section 2; and
- *accounts* – the Financial Statements and the Annual Governance Statement, summarised in section 3.

### Key Messages

- Our **use of resources** assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council had sound processes in place for all elements of the assessment. Scores of level three ('performing well') were achieved in respect of the 'Managing Finance' and 'Governing the Business' and a level two ('performing adequately') in respect of 'Managing Resources'. We concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our value for money conclusion was therefore unqualified.
- We issued an unqualified opinion in respect of the **audit of the accounts**. Some material amendments were required in relation to the treatment of accumulated depreciation and 'no added value' assets in the accounts. However, these had no impact on the general fund and were not considered to significantly impact on the reader's interpretation of the accounts.
- We also issued an unqualified opinion in respect of the **pension fund** accounts. We did not identify any material issues during the course of our audit.
- We responded to one elector enquiry during 2008/09, which has now been closed.

### Fees

Our fee for the audit was £205,000, which was the agreed fee. We also charged £65,000 in respect of the pension fund audit, against an agreed planned fee of £70,000.

### Future Issues

- From 2010/11, local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS), which contain a number of significant differences from the current financial reporting regime. The Council has started preparing for this transition, although as with all local authorities there remains much to be done to identify the full impact of IFRS on its accounting arrangements and to make the necessary changes.
- Those local authorities in the Carbon Reduction Commitment scheme will need to start reporting their usage from 1 April 2010 and recording these transactions within their financial statements with effect from 1 April 2011. There will be implications for cash flow, energy bills, and investment decisions and these could be significant. There are opportunities in addressing sustainability with clear cost reduction benefits from saving energy which will become more significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges. It puts carbon reduction firmly amongst the priority areas for local authorities, with the opportunities outlined above applying even for those authorities who are not captured by the scheme.

## Executive Summary (continued)

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### Future Issues (cont)

- Sustainability performance - The Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act quickly to implement new information gathering processes.
- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. More than ever before, officers and Members will need to focus on identifying these significant savings measures and ensuring that robust arrangements are in place to monitor their delivery to ensure they are realised. The Council has a good track record in delivering such efficiency and savings targets. It will, however, be necessary to continually assess and update the Council's plans to ensure that you can deliver the levels of savings required for the future, particularly as pressure increases to minimise council tax rises.

### Acknowledgement

We would like to thank the Council's management and staff for the help, support and co-operation they have provided throughout our audit.

## Section two

# Use of resources

The main elements of our use of resources work are:

- *Use of Resources* - from 2008/09, the Audit Commission introduced a new UoR assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former UoR assessment which was predominantly focused on processes. The scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes. UoR assessment comprises three themes which consider:
  - Managing finances – focusing on sound and strategic financial management;
  - Governing the business – focusing on strategic commissioning and good governance; and
  - Managing resources – focusing on the management of natural resources, assets and people.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment.
- *Specific risk based work* – we carry out specific reviews of issues facing you, based on a risk assessment and from risks raised with us from various sources. This year we undertook a review of the Council’s risk management arrangements.

The findings from this work are summarised below.

Element of work	Key findings								
<b>Use of Resources</b>	<p>Our assessment of the Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1"> <thead> <tr> <th>Area</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Managing finance</td> <td>3</td> </tr> <tr> <td>Governing the business</td> <td>3</td> </tr> <tr> <td>Managing resources</td> <td>2</td> </tr> </tbody> </table> <p>Overall, the Council demonstrated robust processes in place against all assessment areas, and successfully demonstrated how these were being used to generate outcomes. Key areas for focus going forward include:</p> <ul style="list-style-type: none"> <li>• Ensuring that the accounts are free from material errors and consideration of whether the timetable for the publication of the annual report could be brought forward;</li> <li>• Demonstration that the risk management processes are fully embedded at a corporate and operational level in practice as well as in theory</li> <li>• Demonstration of the outcomes being achieved as a result of the strategies and programmes being rolled out as part of the Carbon Management Implementation Plan, and other schemes.</li> </ul> <p>Specific recommendations and our detailed assessment is included in our Report to Those Charged with Governance (ISA 260).</p>	Area	Score	Managing finance	3	Governing the business	3	Managing resources	2
Area	Score								
Managing finance	3								
Governing the business	3								
Managing resources	2								
<b>Value for money conclusion</b>	<p>We issued an unqualified value for money conclusion for 2008/09.</p> <p>This means that we are satisfied that you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p> <p>In reaching our value for money conclusion, we have also taken into account the findings of our Risk Management review.</p>								

## Financial statements

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### Audit opinion

We issued an unqualified opinion on your accounts on 29 September 2009. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year. We also issued an unqualified opinion on the Pension Fund accounts.

Before we give our opinion on the accounts, we are required to report to 'those charged with governance' any significant matters identified. We did this in our report to the Audit and Performance Review Panel meeting on 28 September 2009 and the key issues are summarised here.

### Accounts production and adjustments to the accounts

- We received a complete set of draft accounts by the 30 June deadline supported by good quality working papers.
- Our audit identified two material adjustments. One related to the treatment of 'no added value' assets, where we identified that £1,655K of this should be capitalised and immediately impaired, £44K should be treated as revenue expenditure funded from capital under statute and the remaining £498K should be treated as additions to fixed assets. The second material adjustment was in relation to the treatment of accumulated depreciation, resulting in an understatement in book value was £23,876K of land and buildings. Neither of these adjustments impacted on the general fund balance. A number of presentational adjustments were also made to the accounts.
- Our audit resulted in eight recommendations regarding financial controls.

There were no other issues raised for the attention of the Audit and Performance Review Panel.

## Appendices

### Appendix 1: Key recommendations

This appendix summarises the main recommendations that we identified during 2008/09, along with your response to them. Only medium priority recommendations have been included here (no high priority recommendations were raised) Other lower priority recommendations are contained, as appropriate, in our audit reports (which are listed in Appendix 2).

Issue/ Recommendation	Management Response / Timescale for implementation
<b>Financial statements audit</b>	
<p><b>Checks on Benefits Assessments</b></p> <p>The Authority has recognised the need to implement a daily 10% sample check of benefits decisions. However, this control has not been performed on a regular basis in the year to date.</p> <p>The Authority should ensure that a senior Benefits officer performs a daily 10% sample check of benefits assessments using the existing Academy functionality.</p>	<p>Agreed</p> <p>Head of Revenues and Benefits</p> <p>December 2009</p>
<p><b>Academy Access Rights</b></p> <p>The current process used to inhibit the user accounts of leavers on the Academy system relies on managers' emails to the system administrator. During our testing we noted that this control had not operated effectively, and that the account of at least one leaver remained active on the system.</p> <p>We recommend that the Revenues &amp; Benefits Support Manager performs a 6-monthly review of user accounts on the Academy system, in order to identify and disable the accounts of leavers.</p>	<p>Agreed</p> <p>Head of Revenues and Benefits</p> <p>December 2009</p>
<p><b>Network Access Rights</b></p> <p>Though our testing of the network access rights of Authority staff we determined that a number of staff had left the Authority, but had not had access to the network revoked. This was because the user's manager had not raised a helpdesk call, and the list of leavers circulated to the Systems Team by HR had not been used to disable the accounts of leavers.</p> <p>We recommend that the Authority ceases the practice of requiring helpdesk requests from leavers' managers, as this process has not proven effective. The Authority should assign responsibility for disabling the Network accounts of leavers to a named member of staff. This member of staff should use the list of leavers provided by HR at least monthly to inhibit the accounts of leavers. After a predefined period (e.g. 6 months) the accounts of these leavers should be reviewed for deletion.</p>	<p>Agreed</p> <p>Head of ICT</p>
<p><b>Treatment of Revaluations</b></p> <p>Our substantive audit of fixed assets identified errors in the treatment of revaluations. Failure to write out accumulated depreciation balances in respect of revalued assets has resulted in net book values being understated in many instances.</p> <p>This incorrect treatment and lack of independent review of accounting entries has resulted in a material misstatement in the accounts.</p> <p>We recommend that the fixed asset register is periodically reviewed by an independent member of the accountancy team to ensure that it is being produced accurately.</p>	<p>Agreed.</p> <p>Many of the problems related to a cumbersome and antiquated spreadsheet modified for the many changes in SORP. A new integrated property terrier and asset register follows a standard process that addresses these problems.</p> <p>Periodic review will be undertaken</p> <p>Chief Accountant</p> <p>March 2010</p>

**Appendix 1: Key recommendations (continued)**

Issue/ Recommendation	Management Response / Timescale for implementation
<b>Use of Resources audit</b>	
<p><b>Managing Finances – KLOE 1.3</b></p> <p>To achieve an improved score in relation to KLOE 1.3, the Authority will need to demonstrate:</p> <ul style="list-style-type: none"> <li>• that the annual accounts as presented to the Audit and Performance Review Panel are free from material errors;</li> <li>• that external reporting is timely (for example consideration could be given to bringing the timetable forward for publishing the annual performance report); and</li> <li>• that the Authority seeks the views of all stakeholders in assessing whether external reporting meets their needs, and that resulting reports are accessible to all stakeholders.</li> </ul>	<p>Decision to reflect notional economic impact on assets was late due to other changes in accounts. Will review changes earlier in future. Chief Accountant March 2010</p> <p>Annual report published after Audit sign-off. 'Proposal suggests publishing July. Will consider publishing subject to audit. Chief Accountant December 2009</p> <p>Reports on web site, libraries and in Around the Royal Borough. No response for content feedback. Will try again. Chief Accountant March 2010</p>
<p><b>Managing Resources – KLOE 3.1</b></p> <p>To achieve an improved score in relation to KLOE 3.1 (sustainability), the Authority will need to demonstrate the outcomes and benefits being achieved in relation to the initiatives and projects being rolled out. We note that many of these initiatives are new, and would anticipate that, providing the Authority can demonstrate that statutory and local targets in relation to the sustainability agenda and carbon reduction are being achieved, that this score will be improved in future years.</p>	<p>Members and officers are committed to sustainability and carbon reduction and democratic processes are well advanced. Borough working parties and champions are established. Head of Public Protection and Sustainability March 2010</p>

## Appendix 2: Audit reports issued

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A summary of the reports issued in the year to date is set out below.

Report	Date
Audit and Inspection Plan 2008/09	June 2008
Report to those charged with governance (ISA 260)	September 2009
Risk Management	December 2009
Annual Audit Letter	November 2009