

Notice of Meeting



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Governance and Ethics Committee

Monday 15 June 2020 at 4.00pm

This meeting will be held in a virtual format in accordance with The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panels Meetings) (England and Wales) Regulations 2020

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Date of despatch of Agenda: Friday 5 June 2020

For further information about this Agenda, or to inspect any background documents referred to in Part I reports, please contact Moira Fraser/Stephen Chard on (01635) 519045/519462

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Further information and Minutes are also available on the Council's website at

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Agenda - Governance and Ethics Committee to be held on Monday, 15 June 2020
(continued)

To: Councillors Jeff Beck (Chairman), Jeremy Cottam (Vice-Chairman), Barry Dickens, Rick Jones, Jane Langford, Tony Linden, Thomas Marino, David Marsh, Geoff Mayes, Andy Moore and Claire Rowles

Substitutes: Councillors Adrian Abbs, James Cole, Lourdes Cottam, Carlyne Culver, Roger Hunneman, Owen Jeffery, Steve Masters and Garth Simpson

Agenda

| Part I | | Page No. |
|--------|---|----------|
| 1 | Apologies To receive apologies for inability to attend the meeting (if any). | |
| 2 | Minutes To approve as a correct record the Minutes of the meetings of this Committee held on 27 April 2020 and 14 May 2020. | 1 - 8 |
| 3 | Declarations of Interest To remind Members of the need to record the existence and nature of any personal, disclosable pecuniary or other registrable interests in items on the agenda, in accordance with the Members' Code of Conduct . | |
| 4 | Forward Plan Purpose: To consider the Forward Plan for the next 12 months. | 9 - 12 |

Governance Matters

| | | |
|---|--|---------|
| 5 | 2019/20 External Audit Fee and External Audit Plan/Scope Purpose: To inform Members of the proposed 2019/20 external audit fee and proposed external audit plan for 2019/20. | 13 - 44 |
|---|--|---------|



Agenda - Governance and Ethics Committee to be held on Monday, 15 June 2020
(continued)

- 6 **Exclusion of Press and Public**
RECOMMENDATION: *That members of the press and public be excluded from the meeting during consideration of the following items as it is likely that there would be disclosure of exempt information of the description contained in the paragraphs of Schedule 12A of the Local Government Act 1972 specified in brackets in the heading of each item.*

Part II

- 7 **Risk Management Q4 of 2019/20 Report** 45 - 80
(Paragraph 3 – information relating to financial/business affairs of particular person)
(Paragraph 5 – information relating to legal privilege)
(Paragraph 6 – information relating to proposed action to be taken by the Local Authority)

Purpose: To highlight the corporate risks that need to be considered by Corporate Board and to outline the actions that are being taken to mitigate those risks.

Sarah Clarke
Service Director (Strategy and Governance)

West Berkshire Council is committed to equality of opportunity. We will treat everyone with respect, regardless of race, disability, gender, age, religion or sexual orientation.

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Note: These Minutes will remain DRAFT until approved at the next meeting of the Committee

REMOTE GOVERNANCE AND ETHICS COMMITTEE

MINUTES OF THE MEETING HELD ON MONDAY, 27 APRIL 2020

Councillors Present: Adrian Abbs (Substitute) (In place of Andy Moore), Jeff Beck (Chairman), James Cole, Jeremy Cottam (Vice-Chairman), Barry Dickens, Jane Langford, Tony Linden, Thomas Marino, David Marsh and Joanne Stewart

Also Present: Shannon Coleman-Slaughter (Chief Financial Accountant), Julie Gillhespey (Audit Manager), Kevin Griffin (Zoom Host), Joseph Holmes (Executive Director - Resources), Shiraz Sheikh (Legal Services Manager), Stephen Chard (Principal Policy Officer), Phil Rumens (Zoom Host), Moira Fraser (Zoom Host), Barrie Morris (External Auditor - Grant Thornton), David Johnson (External Auditor - Grant Thornton) and Councillor Ross Mackinnon (Executive Portfolio Holder: Finance)

Apologies for inability to attend the meeting: Councillors Andy Moore and Geoff Mayes

PART I

32 Minutes

The Minutes of the meeting held on 10 February 2020 were approved as a true and correct record and signed by the Chairman.

Councillor Adrian Abbs noted that his comments relating to the Council's response to the Covid pandemic under the Risk Register discussion were not included in the minutes. Officers explained that as that formed part of the Part II discussions on the agenda they would not be included in these minutes.

33 Declarations of Interest

There were no declarations of interest received.

34 Forward Plan

The Committee considered the Governance and Ethics Committee Forward Plan (Agenda Item 4).

Councillor James Cole asked that the purposes in the document be included on future iterations of the forward plan.

RESOLVED that the Governance and Ethics Committee Forward Plan be noted.

35 Monitoring Officer's Annual Report to the Governance and Ethics Committee 2019/20 (C3687)

The Committee considered a report (Agenda Item 5) which provided an update on local and national issues relating to ethical standards and to draw the attention of Members to any complaints or other problems within West Berkshire. If agreed the report would be presented to the Annual Council meeting.

Shiraz Sheikh in presenting the report on the Monitoring Officer's behalf thanked both the Parish Councillor Representatives and Independent Persons for their contributions to the Governance and Ethics processes. He noted that overall, councillors in West Berkshire had maintained high standards of ethical conduct. The number of declarations in relation

GOVERNANCE AND ETHICS COMMITTEE - 27 APRIL 2020 - MINUTES

to gifts and hospitality was low for Members and officers and there was some disparity between the level of declarations across the Council's three Directorates and this would be looked into. There had been an increase in the number of complaints in 2018/19. This mirrored the increase that was experienced after the 2015 local elections and officers were looking into the training programme to see if any improvements could be made in order to reduce the number of complaints in the first year after an election. None of the complaints were significant in nature and no investigations were required.

The Chairman also, on behalf of the Committee, expressed his thanks to the Parish Council Representatives and the Independent Persons.

Councillor Jeremy Cottam queried if there were specific elements that the complaints pertained to. Officers noted that in respect of District Councillors the majority of the complaints pertained to planning matters and social media. Parish Council complaints had reduced in 2018/19 and most of these pertained to a single incident and there was therefore no pattern of behaviour that could be identified as a cause for the complaints.

Councillor Jo Stewart noted the comment about the level of declarations of gifts and hospitality for Members being low and asked for Officers to comment on it. Officers noted that any declarations pertaining to gifts and hospitality were recorded and it was very important for Members to make these declarations even if the offer was rejected to aid transparency. Officers accepted that the number of declarations might be declining on the basis that fewer offers were now being made. The Chairman noted that he had raised this issue with the Monitoring Officer and she did not consider this to be an issue as many of the gifts would not meet the £25 threshold.

RESOLVED that:

- **The report be noted;**
- **The report be presented to Full Council for information;**
- **It be recommended to Full Council that this report be circulated to all Town and Parish Councils.**

36 Internal Audit Review of the Governance and Ethics Committee (GE3889)

The Committee considered a report (Agenda 6) which set out the findings of the Internal Audit review of the effectiveness of the Governance and Ethics Committee. The review was undertaken in response to a recommendation arising from the external review of the Internal Audit Service and its conformance with Public Sector Internal Audit Standards.

Julie Gillhespey in introducing the report stated that in most cases the Council was complying with good practice. There were a couple of recommendations which were outlined in section 5 of the report. She noted that some of the recommendations would need to be discussed with the Chief Executive to obtain his views as they had wider governance implications. Corporate Board had suggested that the Finance and Governance Group (which was an internal officer group) discuss ways of implementing the recommendations and then make some proposals for the Committee to consider at a future meeting.

The Chairman noted that he should be invited to meet with the Chief Executive to discuss the proposals and he requested that this invitation be extended to the Vice-Chairman of the Committee also.

Councillor Stewart was disappointed that not all Members had completed the self-assessment survey as this would have provided a broader range of opinions. She felt that the recommendations were reasonable. She would be happy to be involved in any

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discussions on the re-shaping of the Committee so that she could reflect on her experiences as a new Member.

Councillor James Cole commented that he was very disappointed to see the lack of responses from Members and he felt that the report was damning given that the Committee appeared to only comply with two thirds of the good practice recommendations. He supported an annual review of processes. He felt that consideration should be given to having a separate audit committee. He also supported co-opting an accountant onto the Committee as this would be beneficial. Councillor Cole also felt it was important as part of a training programme to cover risk management processes and risk appetite.

Councillor Adrian Abbs stated that Councillor Andy Moore had said he was unable to complete the survey as he felt he did not know enough about the Committee to do so. Councillor Abbs made the suggested that the survey be repeated.

Councillor Jeremy Cottam asked if there was any additional information on resources to support the additional audit work. Julie Gillhespey stated that a new internal audit post had been agreed for the forthcoming financial year which was good news.

RESOLVED that:

- **The contents of the audit report be noted and the recommended actions therein be agreed.**
- **The Chief Executive's views on the proposals and possible implications on other governance structures be sought, prior to agreeing a formal action plan.**

37 Internal Audit - Interim Report 2019-20 (GE3690)

The Committee considered a report (Agenda Item 7) which provided an update on the outcome of Internal Audit work carried out during quarter three of 2019-20.

Julie Gillhespey that during this quarter no significant issues of concern had arisen which needed to be reported to the Committee. There was one school identified as having a weak audit which required improvements in relation to the internal governance and audit of the school fund. The school would be given a six month period to implement the recommendations. A follow up review would then be undertaken once that period had expired. Councillor Adrian Abbs queried what assistance would be provided to the school. Ms Gillhespey noted that a significant level of information would be provided to the school alongside the recommendations which the school could use to make the changes. In addition support would also be provided by the Accountancy Team and Education as appropriate.

Councillor Jo Stewart queried why some of the current audits were still listed as being in draft. Officers explained that there were a variety of reasons for this including a staff vacancy which had meant audits had had to be re-allocated and also when unplanned investigation work was required workloads would have to be reprioritised or audits postponed. The additional resource would assist with this.

RESOLVED that the content of the report be noted.

38 Internal Audit Plan 2020 to 2023 (GE3688)

The Committee considered a report (Agenda Item 8) which set out the proposed Internal Audit Work for the three year period from 2020/21 to 2022/23.

Julie Gillhespey noted that this was an annual report which set out the proposed work programme and included the audit charter which had been amended to reflect the new

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reporting lines following the appointment of the Executive Director as the S151 Officer. There were no major changes to the reporting protocol which was also included in the paperwork. The detailed work programme was attached in Appendix C and the format had been amended to include a column setting out the format of the review i.e. a short review or a full review. The short reviews would mean that the audits could cover wider areas of the council. Paragraph 4.6 also indicated that a separate anti-fraud work plan should be introduced as this was considered to be good practice. A draft work plan was included as Appendix D.

In response to a query from Councillor Jeff Beck, Julie Gillhespey advised that an external auditor would be commissioned for the audit of the Council Tax Reduction Scheme.

Councillor James Cole commented on staffing levels and re-iterated his concerns that the staffing levels were now too low especially given that high risk areas appeared not to be able to be audited often enough. He welcomed the additional post but queried if this was sufficient. Julie Gillhespey commented that benchmarking data suggested that five auditors was an average number of auditors in comparator authorities.

RESOLVED that the Proposed Audit Plan, the amended Internal Audit Charter and Internal Audit Reporting Protocol be approved.

39 **2019/20 Financial Statements Preparation and 2018/19 Final Audit Opinion (GE3890)**

The Committee considered a report (Agenda Item 9) which informed Members of the final external audit opinion for the financial year 2018/19 and of the preparation underway for the production of the 2019/20 Financial Statements.

The Committee agreed to suspend standing orders in order to allow Barrie Morris and David Johnson to speak on this item.

Shannon Coleman-Slaughter noted that the final audit opinion had now been received and that it was a true and accurate reflection of the position. The report also set out how the statements for 2019/20 would be produced based on the recommendations that had emerged during the preparation of the 2018/19 statements.

Barrie Morris stated that the audit opinion had been provided on the 31 March 2020 despite some last minute challenges not least the pandemic. He thanked Officers for their prompt responses especially in relation to the going concern element. The audit letter and 2019/20 audit plan would be presented to the next Committee meeting. A meeting would take place to discuss lessons learnt and assist with preparations for the 2019/20 audit which would be started shortly.

Councillor Adrian Abbs noted that the valuation of assets had been an area of concern and he queried what had or would be done given the impact the pandemic was likely to have on assets during this fiscal year. The external auditors noted that there was likely to be turbulence in two key areas namely property, plant and equipment (operational assets and investment properties and their value and any impairments) and valuation of pension fund and its assets.

Ms Coleman-Slaughter stated that Officers were already working with the Council's valuers in relation to the valuation schedule and she appreciated their input and help. Joseph Holmes noted the lengthening of timescales for the production (31 August) and auditing of accounts (end of November) and commented that this was likely to increase the likelihood and scope of post balance sheet adjustments.

Councillor James Cole noted that paragraph 5.5 (6) stated that the matter was ongoing and achieved. Officers agreed to clarify this.

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Standing orders were reinstated.

The Chairman thanked Barrie Morris and David Johnson for their attendance and contribution.

RESOLVED that the report be noted.

(The meeting commenced at 4:00pm and closed at 5.16pm)

CHAIRMAN

Date of Signature

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Note: These Minutes will remain DRAFT until approved at the next meeting of the Committee

GOVERNANCE AND ETHICS COMMITTEE

MINUTES OF THE MEETING HELD ON THURSDAY, 14 MAY 2020

Councillors Present: Jeff Beck (Chairman), Jeremy Cottam (Vice-Chairman), Rick Jones, Tony Linden, Thomas Marino, David Marsh, Geoff Mayes, Andy Moore and Claire Rowles

Also Present: Moira Fraser (Democratic and Electoral Services Manager)

Apologies for inability to attend the meeting: Barry Dickens and Jane Langford

PART I

1 Election of Chairman

RESOLVED that Councillor Jeff Beck be elected Chairman of the Governance and Ethics Committee for the 2020/21 Municipal Year.

2 Appointment of Vice-Chairman

RESOLVED that Councillor Jeremy Cottam be appointed Vice-Chairman of the Governance and Ethics Committee for the 2020/21 Municipal Year.

(The meeting commenced at 6.15 pm and closed at 6.20 pm)

CHAIRMAN

Date of Signature

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Governance and Ethics Committee Forward Plan 27 July 2020 – June 2021

| No. | Ref No | Item | Purpose | Lead Officer | Lead Member | Governance/Audit/Ethics |
|------------------------|--------|---|---|---------------------------|---|-------------------------|
| 27 July 2020 | | | | | | |
| 1. | GE3822 | Draft Financial Year 2019/20 Going Concern Assessment | This report summarises the management assessment of the Council continuing to operate as a going concern for the purposes of producing the Statement of Accounts for 2019/20. | Shannon Coleman-Slaughter | Councillor Ross Mackinnon Finance and Economic Development | Audit |
| 2. | GE3823 | Draft Annual Governance Statement | To allow the committee to review the Annual Governance Statement before it is signed by the Leader and Chief Executive | Andy Walker | Councillor Jo Stewart Internal Governance | Audit |
| 3. | GE3821 | Internal Audit Annual Assurance Report 2019/20 | The Public Sector Internal Audit Standards (PSIAS) require the Audit Manager to make a formal annual report to those charged with governance within the Council. | Julie Gilhespey | Councillor Jo Stewart Internal Governance | Audit |
| 4. | GE3935 | 2019/20 Financial Statements – Highlight Report | To receive the report. | Shannon Coleman-Slaughter | Councillor Ross Mackinnon Finance and Economic Development | Audit |
| 12 October 2020 | | | | | | |
| 5. | GE3824 | External Audit Fee 2020-21 | To present to members the Audit Fee Letter for 2020/21 from Grant Thornton. The letter sets out the fee for the audit in line with the prescribed scale fee set by the Public Sector Audit Appointments Ltd (PSAA). | Shannon Coleman-Slaughter | Councillor Jo Stewart Internal Governance | Audit |

| No. | Ref No | Item | Purpose | Lead Officer | Lead Member | Governance/Audit/Ethics |
|-------------------------|--------|--|---|---------------------------|---|-------------------------|
| 6. | GE3820 | Summary of Draft West Berkshire Council Financial Statements 2019/20 | To provide Members with the final copy of the Council's Financial Statements. | Andy Walker | Councillor Ross Mackinnon Finance and Economic Development | Audit |
| 7. | GE3689 | External Audit Plan 2020-21 | To provide Members with a copy of the External Audit Plan for 2020-21 | Shannon Coleman-Slaughter | Councillor Jo Stewart Internal Governance | Audit |
| 8. | GE3864 | Internal Audit Interim Report 2020/21 | To update the Committee on the outcome of internal audit work. | Julie Gilhespey | Councillor Jo Stewart Internal Governance | Audit |
| 9. | GE3934 | External Auditors Report on the Financial Statements | To receive the report from the external auditors. | Shannon Coleman-Slaughter | Councillor Ross Mackinnon Finance and Economic Development | Audit |
| 23 November 2020 | | | | | | |
| 10. | GE3891 | Annual Audit Letter | | Joseph Holmes | Councillor Ross Mackinnon Finance and Economic Development | Audit |
| 11. | GE3893 | Internal Audit – Interim Report 2020-21 | To update the Committee on the outcome of internal audit work | Julie Gillhespey | Councillor Jo Stewart Internal Governance | Audit |
| 01 February 2021 | | | | | | |
| 12. | GE3892 | Preparation for 2020-21 Financial Statements | | Shannon Coleman-Slaughter | Councillor Ross Mackinnon Finance and Economic Development | Audit |

| No. | Ref No | Item | Purpose | Lead Officer | Lead Member | Governance/Audit/Ethics |
|----------------------|--------|---|--|------------------|--|-------------------------|
| 13. | GE3907 | Strategic Risk Register Update Q2 2020/21 | To provide an update on the Strategic Risk Register as at Q2 of 2020/21. | Catalin Bogos | Councillor Jo Stewart Internal Governance | Audit |
| 19 April 2021 | | | | | | |
| 14. | GE3894 | Internal Audit – Interim Report 2020-21 | To update the Committee on the outcome of internal audit work | Julie Gillhespey | Councillor Jo Stewart Internal Governance | Audit |
| 15. | GE3895 | Internal Audit Plan 2021/22 | To outline the proposed internal audit work programme for the next three years | Julie Gillhespey | Councillor Jo Stewart Internal Governance | Audit |
| June 2021 | | | | | | |
| 16. | TBC | Risk Register Update Q4 2020/21 | To provide an update on the Strategic Risk Register as at Q4 of 2020/21. | Catalin Bogos | Councillor Jo Stewart Internal Governance | Audit |

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2019/20 External Audit Fee and External Audit Plan/Scope

| | |
|---|---|
| Committee considering report: | Governance & Ethics Committee on 15 June 2020 |
| Portfolio Member: | Councillor Ross Mackinnon |
| Date Portfolio Member agreed report: | 14 May 2020 |
| Report Author: | Shannon Coleman-Slaughter |
| Forward Plan Ref: | GE3932 |

1 Purpose of the Report

This report is to inform members of the proposed 2019/2020 external audit fee and proposed external audit plan for 2019/2020.

2 Recommendation

For members to comment on and note the report.

3 Implications and Impact Assessment

| Implication | Commentary |
|------------------------|---|
| Financial: | Whereby a Council is deemed to have not produced financial statements in accordance with relevant accounting requirements, this can result in additional testing by external auditors and increased external audit fees. |
| Human Resource: | Not applicable |
| Legal: | The scope of the external audit is set in accordance with the CIPFA Code and International Standards on Auditing (ISAs) (UK). The Council's appointed external auditors are responsible for forming and expressing an opinion on the Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Ethics Committee); and Value for Money arrangements in place for securing economy, efficiency and effectiveness in your use of resources. |

| | | | | |
|--|---|----------------|-----------------|-------------------|
| Risk Management: | Where external auditors deem that the Council's annual financial statements are not prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and the Local Audit and Accountability Act 2014, and do not provide a true and fair view of the Council's financial position and performance, this may result in a qualified audit opinion. | | | |
| Property: | Not applicable | | | |
| Policy: | Not applicable | | | |
| | Positive | Neutral | Negative | Commentary |
| Equalities Impact: | | | | |
| A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality? | | X | | |
| B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users? | | X | | |
| Environmental Impact: | | X | | |
| Health Impact: | | X | | |
| ICT Impact: | | X | | |
| Digital Services Impact: | | X | | |

| | | | | |
|-------------------------------------|---|---|--|--|
| Council Strategy Priorities: | | X | | |
| Core Business: | | X | | |
| Data Impact: | | X | | |
| Consultation and Engagement: | Joseph Holmes, Executive Director, s151 Officer. Andy Walker, Head of Finance & Property | | | |

4 Executive Summary

- 4.1 In April 2020 the MHCLG announced that the annual deadline for production of the 2019/20 financial statements and subsequent inspection by external audit would be delayed in response to pressures on Council brought by the Covid outbreak. The revised annual deadline for production of the 2019/20 financial statements is 31st August 2020. Grant Thornton the Council's appointed external auditor has proposed that an interim audit is undertaken in July 2020 supported by a final full audit in September 2020. A detailed audit plan prepared by Grant Thornton and submitted to the Council is included in Appendix B.
- 4.2 In response to an national review published in July 2019 by the Financial Reporting Council (FRC), the FRC identified that external audit firms needed to improve the extent and rigour of challenge of management in areas of judgement, improve consistency of audit teams' application of professional scepticism, strengthen effectiveness of the audit of revenue, improve the audit of going concern assumptions and the completeness and evaluation of prior year adjustments. These findings coinciding with the findings of the 2018/19 audit of the Council's financial statements has resulted with an increased fee structure for the 2019/20 external audit.
- 4.3 The proposed audit fee (which is subject to approval by Public Sector Audit Appointments (PSAA)), for 2019/20 is set at £95,342, compared to a scale fee of £74,243 in 2018/19. Appendix A sets out Grant Thornton's scope for the audit and basis of the audit fee, further details of the proposed fee is included in the proposals section of this report.

5 Supporting Information

Introduction

- 5.1 Grant Thornton, the Council's appointed external auditor has set out the scope of the 2019/20 audit in accordance with the CIPFA Code of Practice and International Standards on Auditing (ISAs) (UK), with a view to forming and expressing an opinion on the:

2019/20 External Audit Fee and External Audit Plan/Scope

- (a) Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Ethics Committee); and
- (b) Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in the Authority's use of resources.

5.2 For the audit of the 2019/20 financial statements, the proposed fee is set at £95,342.

5.3 In respect of the production of the 2019/20 financial statements, the MHCLG have issued guidance that the statutory deadline for publication for 2019/2020 final, audited accounts will be delayed. The deadline for the production of the 2019/2020 financial statements has been extended to 31st August 2020, with financial statements expected to be audited by 30th November 2020. The change in the annual deadlines is a national change implemented by government in response to the Covid outbreak.

Background

5.4 As at 31 July 2019, 40% of Local Authority audits of the 2018/19 financial statements were not completed, of which West Berkshire Council was one. It is important to note that the 31 July date is **not** a statutory deadline for conclusion of an audit. The Council's appointed external auditor Grant Thornton provided a true and fair conclusion of the 2018/19 financial statements on 30th March 2020.

5.5 The main contributing factors to the delay in Councils having their 2018/19 external audit opinions finalised across the sector were:

- (a) 2018/19 was the first year of the new Public Sector Audit Appointments (PSAA), contracts (PSAA is used by the Council (as by many councils) to appoint auditors on its behalf). As a result KPMG the Council's previous external auditor was replaced by Grant Thornton.
- (b) The audit requirements for 2018/19 increased as external auditors worked towards meeting the anticipated expectations of the FRC, particularly in relation to fixed asset accounting and pensions accounting.

5.6 The FRC publishes an annual Quality Inspection of external auditor firms. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality. In the July 2019 inspection report, the FRC has identified the need for auditors to:

- Improve the extent and rigour of challenge of management in areas of judgement
- Improve the consistency of audit teams' application of professional scepticism
- Strengthen the effectiveness of the audit of revenue
- Improve the audit of going concern
- Improve the audit of the completeness and evaluation of prior year adjustments.

- 5.6 The above findings from the FRC have resulted in the requirement for increased testing and scrutiny by external audit firms as part of the 2019/20 external audit process. The increased scrutiny also comes with an increased fee structure for the 2019/20.
- 5.7 PSAA also commissioned the Local Government Association’s (LGA) Research and Information team to conduct two anonymous surveys seeking the views and experiences of directors of finance and Audit Committee Chairs, respectively, in relation to audits relating to the 2018/19 financial year. Approximately 20% of directors confirmed that for 2018/19 there had been a change in the appointed external audit firm.
- 5.8 The survey of Finance Directors concluded that approximately 40-60% of directors agreed that their auditors worked on a timely “no surprises” basis and approximately 60% felt that the auditors had the relevant skills to deliver the audit. Furthermore approximately 80% of directors confirmed that auditors had imposes a fee variation in respect of delivery of the 2018/19 audit. The overriding themes mostly expressed dissatisfaction or concern with various features of the audit, including proposals of additional fees; lack of communication and delays; poorly managed team changes; the audit team’s lack of experience and resources; and more specific concerns around the audit approach, McCloud issues and accounting issues.

Proposals

- 5.9 For 2019/20 the proposed audit scope provided by Grant Thornton (included in Appendix A), includes their response to the FRC findings and outlines key areas of audit focus in response to risks identified during the 2018/19 audit.
- 5.10 The proposed scale fee for 2019/20 is set at £74,423, which is the same level as 2018/19. Grant Thornton have proposed further variations in the 2019/20 fee detailed in the table below:

| Area | 2019/20 | 2018/19 | 2017/18 |
|---|----------------|-----------------|----------------|
| Scale fee | £74,742 | £74,423 | £96,653 |
| Increased challenge and depth of work | £5,000 | | |
| Materiality | £3,000 | | |
| Plant, Property & Equipment | £4,350 | £3,000 | |
| Pensions | £1,750 | £6,000 | |
| New Standards / developments and local issues | £6,500 | £36,350 | |
| Total Fee | £95,342 | £119,773 | £96,653 |

Extract from Grant Thornton scoping letter - appendix A

- 5.11 The increased fee of £20,600 covers:
- (a) The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations. The volume and scope of testing is proposed to be increased to ensure an adequate level of audit scrutiny and challenge over the Council’s assumptions underpinning PPE valuations. Additional audit fees of £3,000 were incurred for the 2018/19 audit relating to additional testing of PPE, the increased fee proposal for 2019/20 is £4,350.

- (b) The FRC has highlighted that the quality of work by audit firms in respect of IAS 19 (pension review and scrutiny) requires improvement across cross local government audits. Greater granularity of review will cover depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, supported with heightened levels of documentation and reporting. Additional audit fees of £6,000 were incurred for the 2018/19 audit relating to additional testing of pensions, the increased fee proposal for 2019/20 is £1,750.
- (c) The Council is required to respond effectively to new accounting standards and disclose the expected impact of changes in accounting treatment in the financial statements. During the 2018/19 external audit, the auditors identified a number of issues in both the accuracy of figures and information reported in the financial statements and the quality of supporting working papers which resulted in an additional audit fee of £36,350. For 2019/20 an increased audit fee of £6,500 has been proposed to cover potential additional testing as new processes and procedures across the Council's financial reporting team become embedded.
- (d) For 2019/20 the external auditors have reduced the Council's materiality thresholds from 1.5% of gross expenditure to 1.25% (effectively decreasing materiality from £5.04million in 2018/19 to £4.30million in 2019/20). The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Furthermore additional scrutiny and challenge of the Council's going concern assumptions in light of the Covid outbreak will be undertaken, which is a national requirement and not localised to the Council. The proposed fee increase for 2019/20 related to materiality and depth of work is £8,000.

5.12 The above fees are reviewed and agreed by PSAA, responsible for the appointment of the Council's external auditor.

5.13 In respect of the production of the 2019/20 financial statements, the MHCLG have issued guidance that the statutory deadline for publication for 2019/2020 final, audited accounts will be delayed. The deadline for the production of the 2019/2020 financial statements has been extended to 31st August 2020, with publication of audited financial statements deadline moved to 30th November 2020. External audit have proposed that an interim audit is undertaken in July 2020 with the full annual audit being undertaken in September 2020. The detailed external audit plan supplied by Grant Thornton is included in Appendix B.

6 Other options considered

No other options have been considered.

7 Conclusion

- 7.1 The external audit undertaken by the Council’s appointed external auditor Grant Thornton is scheduled for September 2020 with an interim audit in July 2020. The revised deadlines are in acknowledgement of the MHCLG delaying the statutory deadline for production of the annual financial statement to 31st August 2020 due to the Covid outbreak.
- 7.2 In response to findings from the 2018/19 external audit and with increased scrutiny requirements set out by the FRC, external audit have proposed an increased fee of £95,342 for the 2019/20 audit. It should be noted that the increased scrutiny requirements are a national requirement and not localised to the Council.

8 Appendices

- 8.1 Appendix A – 2019/20 External Audit Scope Letter (inclusive of fee)
- 8.2 Appendix B – 2019/20 External Audit Plan

Subject to Call-In:

Yes: No: X

Report is to note only X

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Joseph Holmes
Executive Director (Resources)
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24 April 2020

Grant Thornton UK LLP
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Dear Joseph

Audit scope and additional work 2019/20

I hope you and your colleagues are all keeping safe and well in these very unusual and difficult times. In this letter, I want to update you on our plans to work with you over the coming months, and to ensure that we plan our audit effectively, to provide assurance for those charged with governance, and to deliver a high quality audit to all users of the audit, whilst seeking to maintain our fee within the envelope which we have recently been discussing with you. The letter has therefore been updated to the one I shared with you dated 7 April 2020.

Global events have moved in an unexpected and tragic direction and none of us could have foreseen the impact that the Covid19 crisis has had on the world. As a local government body, you are at the forefront of efforts to support local people, and clearly the focus of the Authority will be directed to supporting local communities as best you can in these exceptionally difficult circumstances. As your auditors, we absolutely understand the challenges that you and your teams are facing and we have already been discussing with you and your team how we can work with you as effectively as we can. At these challenging times it is even more important to ensure that we can deliver a high quality audit, focused on good governance and the application of relevant accounting and auditing standards, whilst recognising the day to day pressures you face.

In recent conversations, including at West Berkshire Council's Governance and Ethics Committee, we have discussed the increased regulatory focus facing all audit suppliers and the impact this will have on the scope of our work for 2019/20 and beyond. You will have also received a letter via email from Tony Crawley of PSAA in December 2019 explaining the changing regulatory landscape. In his letter, Mr Crawley highlights: *"significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations."*

I promised I would set out in more detail the likely impact of this on our audit, and I am pleased to do so in this letter. Should further matters arise during the course of the audit they could also have fee and timetable implications that we would need to address at that point.

Across all suppliers and sectors (public and private), the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust

testing. There is a general 'raising of the quality bar' following a number of recent, high-profile company failures that have also been attributed to audit performance. Alongside the FRC, other key stakeholders including the Department for Business, Energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. The FRC has been clear to us that it expects audit quality in local audit to meet the same standards as in the corporate world and the current level of financial risk within local audit bodies supports this position.

As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders with regard to audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met, we anticipate that, as first seen in 2018/19, we will need to commit more time in discharging our statutory responsibilities, which will necessitate an increase in costs. I set out below the implications of this for your Authority's audit.

Increased challenge and depth of work – raising the quality bar

The FRC has raised the threshold of what it assesses as a good quality audit. The FRC currently uses a four-point scale to describe the quality of the files it reviews, as follows:

| Score | Description |
|---------|---|
| 1 or 2a | Acceptable with Limited Improvements Required |
| 2b | Improvements required |
| 3 | Significant Improvements Required |

Historically, the FRC's definition for 2b was 'acceptable but with improvements required' and, as such, both the Audit Commission and PSAA considered a '2b' to represent an acceptance level of audit quality for contract delivery purposes. The FRC has now set a 100% target for all audits (including local audits) to achieve a '2a'. Its threshold for achieving a '2a' is challenging and failure to achieve this level is reputationally damaging for individual engagement leads and their firm. Non-achievement of the standard can result in enforcement action, including fines and disqualification, by the FRC. Inevitably, we need to increase the managerial oversight to manage this risk. In addition, you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. We will be required to undertake additional work in the following areas, amongst others:

- use of specialists
- information provided by the entity (IPE)
- journals
- management review of controls
- revenue
- accounting estimates
- financial resilience and going concern
- related parties and similar areas.

As part of our planning, we have also reflected on the level of materiality which is appropriate for your audit. As outlined above, the profile of local audit has increased considerably over the past year. The reviews led by Sir John Kingman, Sir Donald Brydon and Sir Tony Redmond are focusing attention on the work of auditors everywhere. Parliament, through the work of its Scrutiny Committees, has made clear its expectations that auditors will increase the quality of their work. Reflecting this higher profile, and the expectations of stakeholders, we propose to reduce the materiality level for all major audits. For West Berkshire Council, this is likely to lead to a reduction from 1.5% to 1.2% of gross revenue expenditure, reflecting our experience from the 2018-19 audit. This will increase the volume and scope of our testing and reporting to those charged with governance, as well as providing you with additional assurance in respect of the audit.

As a result, you may find the audit process for 2019/20 and beyond even more challenging than previous audits. This mirrors the changes we are seeing in the commercial sectors.

Property, plant and equipment (PPE or 'Fixed Assets')

The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. We have also determined that, for major local audits, we will now be engaging our own external valuer to provide appropriate assurance to the standards expected by the FRC.

Pensions (IAS 19)

The FRC has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Specifically, for the following areas, we will increase the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. Our planned additional procedures include:

- verification of the accuracy and completeness of the data provided to the actuary by both the admitted body and the administering authority
- checking the value of the Pension Fund Assets at 31 March per the Authority's financial statements against the share of assets in the Pension Fund statements
- review and assess whether the significant assumptions applied by the actuary are reasonable and are followed up on areas identified by either our review or PwC as outliers
- ensuring that the instructions from the audit team to the Pension Fund auditor include enquiries in respect of service organisation reports as well as testing in respect of material level 3 pension assets (please note that this is outside the scope of PSAA's fee variation process)

Complex accounting issues and new accounting standards

You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. There is a requirement, under IAS8, to disclose the expected impact of changes in accounting treatment in the financial statements.

We know the Authority has appreciated our responsiveness in the past and we would wish to continue to be able to do this in the future.

Local issues

The audit of the West Berkshire Council's 2018-19 financial statements was the first year that Grant Thornton UK LLP were your external auditors. Our audit identified a number of issues both in the accuracy of the figures and information reported in the financial statements and in the quality of supporting working papers. This required significant additional audit work to complete the audit and resulted in an additional fee to be paid.

We have continued to work with senior members of the finance team to address the issues arising during the 2018-19 audit and seek improvements to both the quality and accuracy of the financial statements and the supporting working papers produced by the Council for 2019-20. However, it is likely that there will be additional audit work arising in 2019-20 as these new arrangements become embedded and further opportunities to improve are identified. We have therefore factored in our expected additional audit work into the scope of the audit,

Covid 19

The current pandemic crisis has increased audit risk factors in the following areas:

- Remote working arrangements and redeployment of staff to critical front-line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management's estimates;

- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and their overall financial resilience and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We will set out in the Audit Plan the additional work we propose to undertake in respect of this new significant risk. Fundamental to our response will be working with you to understand the arrangements the Authority has in place to address relevant risks in respect of Covid 19 in its accounts preparation. We will also review the appropriateness of your disclosures, including in respect of any estimation uncertainties around for example operational property plant and equipment and Pensions asset valuations. The significance of the Council's investment property portfolio and the potential impact of the coronavirus on its valuation will require additional audit input, potentially using an auditor's expert, which may incur further additional costs that we would need to pass onto you.

Value for Money and Financial Standing

As part of our VfM work we will ensure we understand the arrangements you are putting in place to manage risks around business continuity in the current pandemic crisis. We do not envisage this will be a significant audit risk for 2019/20, although we will keep this under review for 2020/21. We will also review your assessment of going concern and financial stability in the light of increased uncertainties around for example Council Tax and NNDR collection rates, car park income and investment returns. We envisage linking the additional VfM work around financial standing with our Going Concern opinion work.

Regulatory changes.

As you will be aware, earlier this month, CIPFA decided to adopt a small number of presentational changes to its Accounting Code of Practice for 2019/20. The changes which are now proposed to the Code, for example around disclosure, will have only a marginal impact on the audit. The additional audit risk factors that I highlighted in my January 2020 letter regarding raising the bar, PPE and Pensions work, for example, will therefore all still be required this year. You will also be aware that the Government accounting Financial Reporting Advisory Board (FRAB) has deferred the implementation of IFRS 16 by a year. Whilst IAS 8 disclosures will be required, this change will lead to some reduction in preparatory work required by both you and us, for this year at least.

Finally, MHCLG has revised the publication date for the draft accounts to 31 August and set a target date for publication of audited accounts of 30 November. Whilst flexibility in moving away from July is welcome, a number of authorities have highlighted the risk that a delayed closedown process could impact on their budget programme for 2021/22. We are keen to agree a timetable that works for you, and that we can both commit to and we continue to liaise with you on this.

Impact on the audit and associated costs

You will note we did not raise additional fees across the sector as a whole in 2018/19 in respect of the additional work required in response to the implementation of IFRS9 and IFRS15. This was a goodwill decision we took in support of the strong relationship we have with the sector. However, the volume of additional work now being required, as set out above, means we are no longer able to sustain that position. This is an issue not just across public services but also in the private sector where fees are being increased by all of the major suppliers by more than 20%.

We benefit from effective and constructive working relationships which we have established during our engagement with you to date. This allows us to absorb some of the impact of these changes. Using our strong working knowledge of you and efficiencies that we are continuously seeking to implement as part of our focus on continued collaborative working with you, we have sought to contain the impact as much as possible to below the market average.

We have assessed the impact of the above as follows for 2019/20, with the comparative position for the two previous years shown. Please note these are subject to approval by PSAA in line with PSAA's normal process. Should other risks arise during the course of the audit which we have not envisaged, we may need to make a further adjustment to the fee.

| Area | Cost £ | | |
|---|----------------|-----------------|----------------|
| | 2019/20 | 2018/19 | 2017/18 |
| Scale Fee | £74,742 | £74,423 | £96,653 |
| Increased challenge and depth of work | £5,000 | - | - |
| Materiality | £3,000 | - | - |
| PPE | £4,350 | £3,000 | - |
| Pensions | £1,750 | £6,000 | - |
| New standards / developments and local issues | £6,500 | 36,350 | - |
| Total | £95,342 | £119,773 | £96,653 |

This would give a scale fee for the statutory accounts audit for 2019/20 of £74,742 plus VAT plus a variation of £20,600 plus VAT, giving a total fee of £95,342 plus VAT.

Please note that PSAA's arrangements require a separation of fees and remuneration, which means that Grant Thornton does not receive 100% of the current fees charged.

The additional work we are now planning across the whole of our portfolio will inevitably have an impact on the audit timetable and whether or not your audit can be delivered to appropriate quality standards by the 31 July 2020. Grant Thornton remains the largest trainer of CIPFA qualified accountants in the UK and is committed to continue to resource its local audits with suitably specialised and experienced staff but the pool of such staff is relatively finite in the short-term. I will be happy to explain the impact of the further work we are planning to undertake on our delivery timetable for your audit, which at this stage is planned to be delivered by 30 November 2020.

Future changes to audit scope

As I have previously mentioned in meetings and at the Governance and Ethics committee, the National Audit Office has consulted on revisions to the Code of Audit Practice and has also indicated its intention to consult on the accompanying Auditor Guidance Notes. This defines the scope of audit work in the public sector. The most significant change is in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- c) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under each of these criteria, statutory guidance will set out the procedures that auditors will need to undertake. An initial review of arrangements will consist of mandatory procedures to be undertaken at every local public body plus any local risk-based work. The consultation closed on 22 November 2019. A new Code will be laid before Parliament in April 2020 and will apply from audits of local bodies' 2020/21 financial statements onwards.

At this stage, it is difficult to cost the impact. However, as soon as the requirements are finalised and it is clear exactly what the expectations will be, I will share with you further thoughts on the potential impact on the audit and associated costs.

I hope this is helpful and allows you to plan accordingly for the 2019/20 audit. Should you wish to discuss this further, please do not hesitate to contact me. We will be sharing our detailed Audit Plan with you in due course. We look forward to working with you again this year,

Yours sincerely

Barrie Morris

Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP

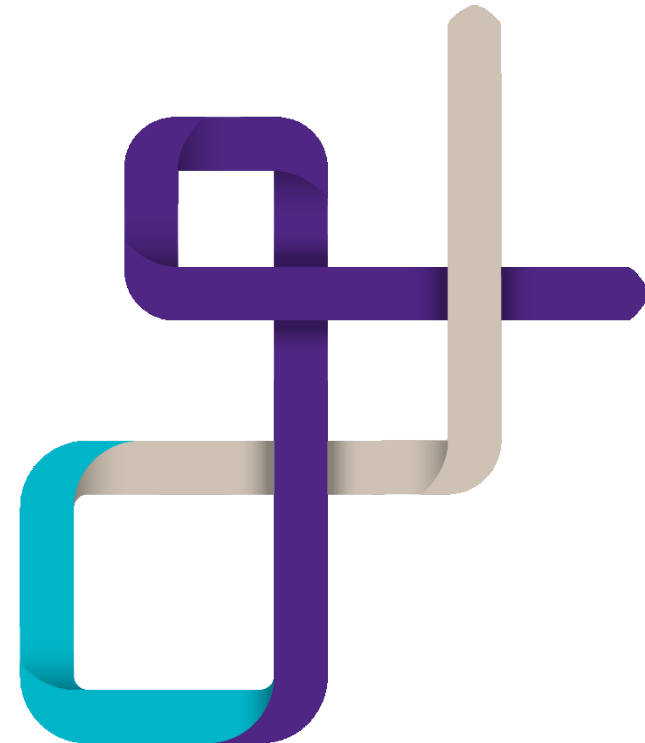


External Audit Plan

Year ending 31 March 2020

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated 00 MMM YYYY



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Introduction & headlines

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Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Berkshire Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of West Berkshire Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Ethics Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Governance and Ethics Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

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Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override
- Valuation of land and buildings
- Valuation of net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £4.30m (PY £5.04m) for the Authority, which equates to 1.25% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £215k (PY £252k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified financial resilience as a VFM significant risk.

Audit logistics

Our interim visit will take place in July and our final visit will take place in September and October. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

The scale fee for the audit is £74,423, although we are proposing a fee variation, for the reasons set out in our separate audit scope letter producing a total fee of £95,023 for 2019-20 (PY: £119,773). This is subject to the Authority meeting our requirements set out on page 13 and PSAA approval.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

2. Key matters impacting our audit

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Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For West Berkshire Council, the focus on finances and financial sustainability continues. The Council has made significant progress in addressing the underlying challenges and posted a surplus in 2018/19. There continues to be pressure within demand led services and the level of reserves available to the Council is still susceptible to unforeseen events.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Covid-19

The current Covid-19 pandemic is expected to have a dramatic impact on finances across all industries including the public sector.

Specifically, greater challenges to local government finances will be felt within cash flows including income receipts generated by Council Tax and Business Rates collection. Central government has responded to this crisis by providing further funding of £1.6bn to cover potential loss of income and there is an ongoing consideration of providing further assistance.

Aside from the impact on finances it is considered that there will be considerable impact on Local Authority accounts and longer term impacts on the Authorities ability to meet savings targets and close the gap in medium term financial strategies.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.
- We will continue to review arrangements in place to deliver VfM including financial sustainability including, reviewing the financial outturn against the budget and planned savings and reviewing assumptions to ensure they are robust and fit for purpose. We will review prior year recommendations to check progress from the previous conclusion.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.

- We identified a significant audit risk relating to Covid19 and the potential impact on the statement of accounts. We outline the audit response on pages 5 and 8
- We will continue to review arrangements in place to deliver VfM including financial sustainability and the impact Covid-19 will have on future financial assumptions.

3. Covid -19

The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Authority and group's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed that the implementation of IFRS 16 has been delayed for the public sector until 2020/21.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19

Changes to our VfM approach

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19,

Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

4. Significant risks identified

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Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|--|
| <p>The revenue cycle includes fraudulent transactions (rebutted)</p> | <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including West Berkshire Council, mean that all forms of fraud are seen as unacceptable | <p>Therefore we do not consider this to be a significant risk for West Berkshire Council.</p> |
| <p>Management over-ride of controls</p> | <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement</p> | <p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |

Significant risks identified

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| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| Valuation of land and buildings (Annual revaluation) | <p>The Council revalues its land and buildings on a rolling basis, with assets physically inspected at least every five years, to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p> | <p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. |
| Valuation of the pension fund net liability | <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£316.5 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p> | <p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Berkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. |

Significant risks identified – Covid – 19 pandemic

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| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|------------|---|---|
| Covid – 19 | <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence |

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in November 2020.

5. Other matters

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Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

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The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

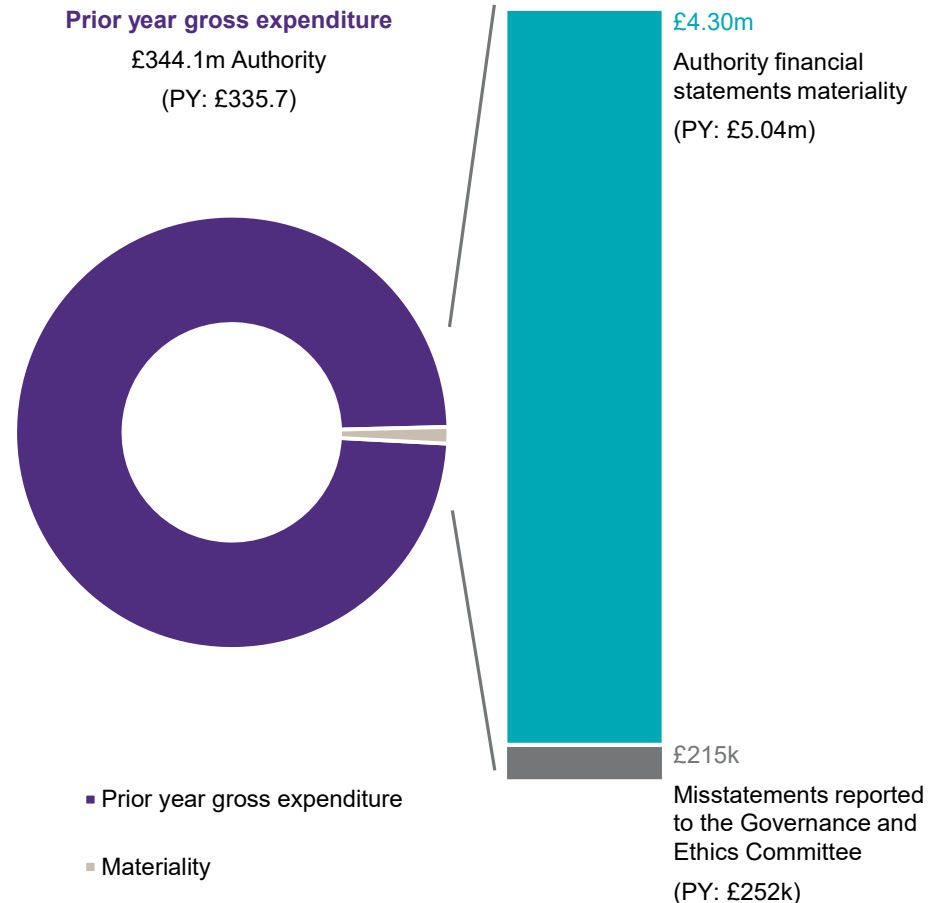
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £4.30m (PY £5.04m) for the Authority, which equates to 1.25% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20,000 for Senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Governance and Ethics Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £215k (PY £252k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Ethics Committee to assist it in fulfilling its governance responsibilities.



7. Value for Money arrangements

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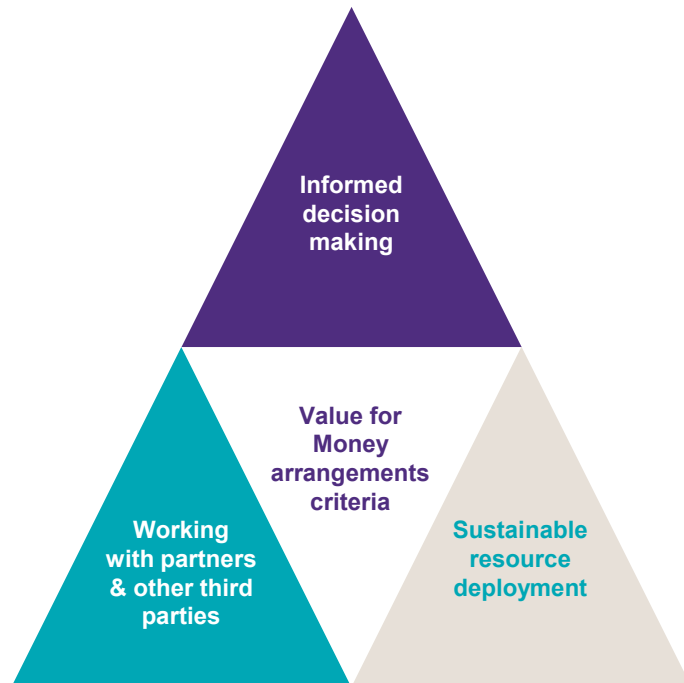
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Financial Sustainability

The Council set a revenue budget for 2019/20 of £131.1m which included a savings and income programme of £6.2m. At Q3 the Council was forecasting a £252k overspend of which £144k had been provided for in reserves and if used would bring the forecast overspend down to £108k.

As in prior years there continues to be pressure on demand led services and in particular Adult Social Care (ASC) specifically where there is a lack of permanent care workforce and associated agency costs.

The council have reduced the level of risk reserves to £500k. These have been set aside to assist in meeting the budget and achievement of a balanced position. This is further underpinned through the receipt of £6.2m specifically for the provision of ASC.

As noted in the Medium Term Financial Strategy (MTFS) the growth in demand led services continues and is over and above what can be funded from Council Tax or the ASC precept. As a result the Council has had to find £24m of revenue savings to balance the budget.

The Covid-19 pandemic has provided further pressures on Authority's finances across a number of areas including social care provision, council tax and business rate collection. Central Government have announced £1.6bn of additional funding to be allocated to local authorities in April 2020 and is un-ringfenced. West Berkshire have been allocated £3.2m. The impact on 2019/20 may not be significant but there is a risk that there will be a large impact on future cash flows in 2020/21 and beyond.

There is a risk that increased cost pressures from demand led services and reduced income as a result of covid-19 could lead to further pressure on the Council's finances

We will review the controls the Authority has in place to ensure financial resilience. We will review the assumptions within the budget, the Medium Term Financial Strategy and the savings and income generation programme, to ensure they are realistic and achievable.

8. Audit logistics & team

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Barrie Morris, Key Audit Partner

Barrie leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council



David Johnson, Audit Manager

David plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues



Tshego Maako, Audit Incharge

Tshego's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is designed effectively and efficiently. Tshego supervises and co-ordinates the on-site audit team

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

9. Audit fees

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Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and is subject to PSAA agreement.

| | Actual Fee 2017/18 | Actual Fee 2018/19 | Proposed fee 2019/20 |
|---|--------------------|--------------------|----------------------|
| Council Audit | £96,653 | £119,773 | £95,342 |
| Total audit fees (excluding VAT) | £96,653 | £119,773 | £95,023 |

Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

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Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

| Audit area | £ | Rationale for fee variation |
|---|---------------|--|
| Scale fee | 74,423 | |
| Raising the bar | 5,000 | The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. |
| Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19 | 1,750 | We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. |
| PPE Valuation – work of experts | 4,350 | We have therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. |
| Materiality | 3,000 | As a result of the issues identified in the 2018/19 audit it has been necessary to reduce the level of materiality to reflect the increased level of risk of material misstatement. This will result in increased scoping and sampling |
| New Standards / developments and local issues | 6,500 | <p>The audit of the West Berkshire Council's 2018-19 financial statements was the first year that Grant Thornton were you external auditors. Our audit identified a number of issues both in the accuracy of the figures and information reported in the financial statements and in the quality of supporting working papers. This required significant additional audit work to complete the audit and resulted in an additional fee to be paid.</p> <p>We have continued to work with senior members of the finance team to address the issues arising during the 2018-19 audit and seek improvements to both the quality and accuracy of the financial statements and the supporting working papers produced by the Council for 2019-20. However, it is likely that there will be additional audit work arising in 2019-20 as these new arrangements become embedded and further opportunities to improve are identified. We have therefore factored in our expected additional audit work into the scope of the audit</p> |
| Revised scale fee (to be approved by PSAA) | 95,023 | |

10. Independence & non-audit services

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Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

| Service | £ | Threats | Safeguards |
|--|--------|---|---|
| Audit related: | | | |
| Certification of Teacher's Pension return for 2018/19 for West Berkshire Council | £3,200 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,200 in comparison to the total fee for the audit of £74,423 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |


The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

Appendices

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A. Audit Quality – national context

Appendix A: Audit Quality – national context

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What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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Agenda Item 7

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