

The Audit Findings for West Berkshire Council

Year ended 31 March 2019

3 February 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Berkshire Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<p>Financial Statements</p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is not materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our audit work has been ongoing on-site from July and has continued in January 2020. Our findings to date are summarised on pages 4 to 13. We have identified a number of adjustments and work with Property Plant and Equipment (PPE) identified a prior period error that has required a prior period adjustments. Material adjustments have been identified in the primary statements as follows:</p> <ul style="list-style-type: none"> • £65.959m in the CIES for revaluation of fixed assets • £65.959m in the Movement in Reserves statement as a result of the CIES adjustment • £65.178m in PPE as a result of the revaluation update • £6.043m in short term creditors • £6.390m in long term liabilities • £65.354m in unusable reserves. 	<p>These, and other audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.</p> <p>Our work is ongoing and there are no matters of which we are aware, from the work to date, that would require modification of our audit or material changes to the financial statements, subject to the completion of testing in the following areas;</p> <ul style="list-style-type: none"> - completion of revaluations review and review of valuers information - confirmation of the pension liability to supporting record and the actuary report - Review and understanding of adjustment to MRP - Consideration and review of the prior period adjustment and the required disclosures - receipt of management representation letter; and - review of the final set of financial statements including adjustments for the McCloud judgement and updated PPE valuation. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Berkshire Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that West Berkshire Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 14 to 17.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit. 	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 15 April 2019

Conclusion

Our audit of your financial statements is ongoing and subject to outstanding queries, outlined on the previous page, being resolved and completed, we anticipate issuing an unqualified audit opinion following the Governance and Ethic Committee meeting as detailed in Appendix E.

Our approach to 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. Materiality calculations remain the same as reported in our audit plan

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	5,040,000	Materiality has been based on 1.5% of the Authority's gross expenditure
Performance materiality	3,780,000	Our performance materiality has been set at 75% of our overall materiality
Trivial matters	252,000	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for Senior Officer Remuneration	20,000	The senior officer remuneration disclosure in the statement of accounts has been identified as an area requiring lower materiality due to its sensitive nature. Materiality has been set for this at £20,000

Significant findings – audit risks

Risks identified in our Audit Plan

The revenue cycle includes fraudulent transactions

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.

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:

- 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

Therefore we do not consider this to be a significant risk for West Berkshire Council.

Commentary

Auditor commentary

As per the audit plan this risk has been rebutted. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at West Berkshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, in summary because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of Local Government authorities, including West Berkshire Council means that all forms of fraud are difficult to rationalise i.e. the culture and ethics mitigate against fraud being seen as acceptable

This assessment is made without placing specific reliance on the entity-level controls which we have identified at West Berkshire Council, but consideration of these controls confirms the appropriateness of our assessment.

There have been no changes to our assessment as reported in our Audit Plan

Management override of controls

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. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.

Management over-ride of controls is a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates and significant unusual transactions

Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings on an rolling basis, with assets revalued at least every five years, to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</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.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none">• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work• evaluated the competence, capabilities and objectivity of the valuation expert• discussed with the valuer to confirm the basis on which the valuation was carried out• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding <p>Audit Findings</p> <p>Our work in this area is ongoing and will include an evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</p> <p>Testing to date has identified that the Council had not included an analysis of revaluations and the date at which they had been valued at fair value. The Council has now prepared this and this indicates that there is a large balance (£11.1m) where valuations have not been undertaken within the last five years. The Council has provided a number of explanations for this and we have requested that this is verified by the Council's valuer.</p> <p>Further review of the assets not subject to revaluation has identified that a material balance exists and the Council have undertaken a further exercise to identify the value of these assets and has employed a qualified valuer to provide updated values. These have been reflected in the accounts and have resulted in an upward material adjustment of £64.850m in the balance sheet.</p> <p>Review of PPE opening balances identified a number of assets that have been erroneously included, either through duplication or through failure of the Council to derecognise properties that had previously been disposed. These assets have a value of £12m and a prior period adjustment of £4.764m has been in order to correctly disclose the opening value of PPE assets.</p> <p>We continue to review the updates provided by the Council and the Valuer to gain assurance that the revalued assets have been appropriately included in the updated financial statements and that there are no material assets that have not been appropriately revalued.</p> <p>We will continue to review this area and report any findings to the Governance and Ethics Committee.</p>

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none">• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;• tested 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;• undertaken 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• obtained 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. <p>Our audit work, whilst not complete, has not identified any issues in respect of the Pension Fund net liability, except for the impact of the McCloud judgement resulting in adjustments to the Council's IAS 19 pension liability. More information on this adjustment is provided on page 21. This adjustment, totalling £4.825 million, has been made to the final version of the financial statements. We are currently reviewing this adjustment to gain assurance that the basis is reasonable.</p> <p>.</p>


Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £251.426m	<p>Other land and buildings comprises £251.426m of assets, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The Authority has engaged Wilks Head and Eve LLP to complete the valuation of properties as at 31 March 2019. £50.7m of the assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £5.048m. The Authority values assets on a five year rolling programme of revaluations in order to ensure that all revalued assets falling under the same class are assessed at the same time.</p>	<ul style="list-style-type: none"> We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used. We reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding and challenged key assumptions where appropriate. The draft statement of accounts did not include a disclosure showing the value of assets revalued in the year and therefore we were requested that this be included in the updated accounts. This has now been done and we are currently reviewing thus disclosure to ensure that it complies with the Code. Further review of balances noted a number of assets that had not been subject to revaluation and identified that a material balance exists. The Council have undertaken a further exercise to identify the value of these assets and has employed a qualified valuer to provide updated values. These have been reflected in the updated draft accounts and have resulted in an upward material adjustment of £64.850m in the balance sheet. Review of PPE opening balances identified a number of assets that have been erroneously included, either through duplication or through failure of the Council to derecognise properties that had previously been disposed. These assets have a value of £12m and a prior period adjustment of £4.764m has been in order to correctly disclose the opening value of PPE assets. Our review of the Council's processes for estimating the value of land and buildings in the statement has identified a number of material misstatements. Based on this work and the point noted above it is audit's opinion that the Councils estimation processes underpinning the statement of accounts are not adequate. We note that the Council has subsequently updated the accounts to reflect the changes. <p>Subject to review of the updated revaluations disclosure we are satisfied that the Council has adopted an appropriate approach.</p>	<p>●</p> <p>Red</p>

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 2 investments	<p>The Council has investments in a number of investment properties that are valued on the balance sheet as at 31 March 2019 at £75.622m. The investments are not traded on an open market and the valuation of the investment is subjective. In order to determine the value, management have employed Wilks Head and Eve LLP and Carter Jonas as management experts. The valuation was based on the market approach and are classed as Level 2 which have taken the form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same or similar locations at or around the valuation date. The value of the investment has increased by £49.599m in 2018/19 due to the purchase of additional properties with a value of £47.205m and net gains from fair value adjustments of £2m.</p>	<ul style="list-style-type: none"> • We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used. • We reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding and challenged key assumptions where appropriate. • We tested revaluations made during the year to ensure they are input correctly into the asset register and subsequently recorded in the financial statements. <p>We noted that two investment properties purchased in March 2018 had not been included within the revaluations. This does not comply with the requirements of the code and an action point has been raised. The Council have subsequently reviewed their treatment of these assets and a further valuation has been undertaken which has resulted in a £323k upward adjustment to Investment Properties on the balance sheet.</p>	 Yellow

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																								
Net pension liability – £88.016m The Council's total net pension liability at 31 March 2019 is £88.016 million (PY £101.077 million) comprising the Berkshire Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £3.707 million net actuarial gain during 2018/19.	<ul style="list-style-type: none">• We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. This included gaining assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding. No issues were identified from our review of the controls in place.• We also evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made. <table><tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>2.4%</td><td>2.4% - 2.5%</td><td><div>●</div><div>Green</div></td></tr><tr><td>Pension increase rate</td><td>2.4%</td><td>2.4% - 2.5%</td><td><div>●</div><div>Green</div></td></tr><tr><td>Salary growth</td><td>3.90%</td><td>Dependent on employer</td><td><div>●</div><div>Green</div></td></tr><tr><td>Life expectancy – Males currently aged 45 / 65</td><td>23.7 / 22</td><td>22.2 – 25.0 / 20.6-23.4</td><td><div>●</div><div>Green</div></td></tr><tr><td>Life expectancy – Females currently aged 45 / 65</td><td>25.8 / 24</td><td>25.0 - 26.6 / 23.2 - 24.8</td><td><div>●</div><div>Green</div></td></tr></table> <ul style="list-style-type: none">• We checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports and did not identified any inconsistencies.• The Authority has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view.• We have worked through the McCloud adjustments and gained assurance that the basis for the adjustments are reasonable.	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4% - 2.5%	<div>●</div> <div>Green</div>	Pension increase rate	2.4%	2.4% - 2.5%	<div>●</div> <div>Green</div>	Salary growth	3.90%	Dependent on employer	<div>●</div> <div>Green</div>	Life expectancy – Males currently aged 45 / 65	23.7 / 22	22.2 – 25.0 / 20.6-23.4	<div>●</div> <div>Green</div>	Life expectancy – Females currently aged 45 / 65	25.8 / 24	25.0 - 26.6 / 23.2 - 24.8	<div>●</div> <div>Green</div>	<div>●</div> <div>Green</div>
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Assessment

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Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
<p>Impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits</p>	<p>In light of this decision, the Council requested from their actuary a full detailed IAS19 report to include an assessment of the McCloud liability.</p> <p>This has identified an additional liability as at 31 March 2019 of £4.825 million in relation to the McCloud adjustment of the Local Government Pension Scheme, with an additional projected service cost for 2019/20 of £xx million.</p> <p>The Council has adjusted for this in the final accounts.</p>	<p>We received the revised IAS 19 calculation from the Council on 12 July and are have worked through this to gain assurance that the basis of the adjustment is reasonable.</p> <p>We have reviewed the adjustments and consider them to be reasonable.</p>

Going concern

Our responsibility

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 entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management have undertaken a going concern assessment which has considered the following areas

- Current Financial Position
- Projected Financial Position
- The balance sheet
- Cash flow
- Governance arrangements
- The regulatory and control environment

The authority has a medium term financial plan (MTFP) that runs to 2020/21 and considers the impact on the Council's finances and requirements to close budget gaps.

The CIPFA code confirms that entities should prepare their financial statement on a going concern basis unless the services provided are to cease. There is no indication from Government that the services provided will cease within the next 12 months

Auditor commentary

- Management have determined that there is no evidence of an intention to cease the provision of services, and have therefore, adopted the going concern assumption. We have not identified any issues through our review and enquiries that suggest this is not appropriate
- We are satisfied that the going concern assumption is appropriate for the Authority's financial statement and is in line with accounting standards and the CIPFA code.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
3	Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	A standard letter of representation has been requested from the Authority, which is included in the Audit Committee papers.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor and will require this prior to issuing our opinion
6	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7	Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management were provided. We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Other responsibilities under the Code

	Issue	Commentary
1	Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
2	Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
3	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the threshold.</p>
4	Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of West Berkshire Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

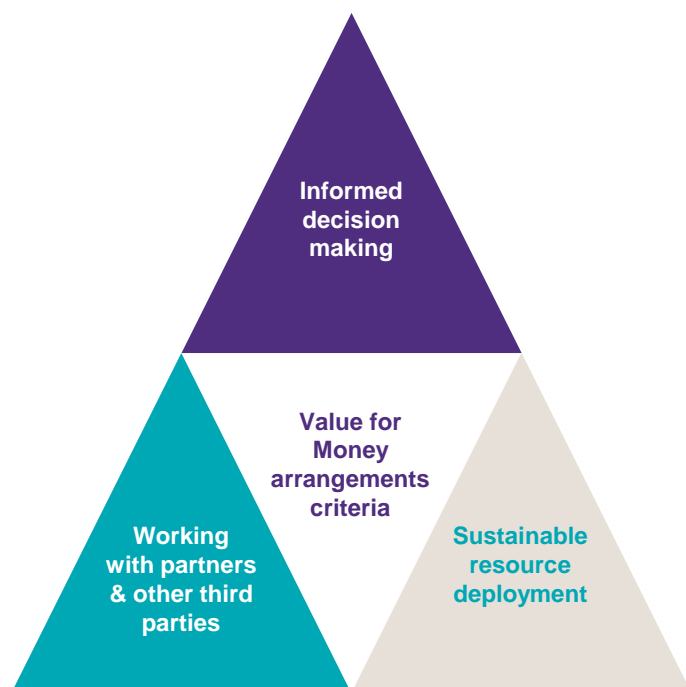
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 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:



Risk assessment

We carried out an initial risk assessment in January 2019 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 18 February 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The implication of the costs and savings within the framework of the medium term financial strategy and the ongoing savings required as result of financial pressures
- The appropriateness of the Council's investment strategy including the purchase of new properties in 2018-19 as way to generate income to assist in the delivery of ongoing services
- The governance and decision making arrangements by the Council to ensure those charged with governance are provided with appropriate and adequate information to direct the Council's strategy

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 16 to 17

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Findings

Financial Sustainability

The Council has set a revenue budget for 2018/19 of £119.4m which includes a savings and income programme of £5.2m. At month 9 the Council is forecasting a £0.25m overspend after the use of the risk reserve (£812k) and the risk provision (£500k). This figure includes a number of mitigation strategies which includes in year reduction of expenditure and looks to address the key areas of overspend.

The main driver of the forecast overspend is the Communities Directorate which is forecasting an overspend of £2.8m of which £2.1m relates to Adult Social Care. The demand led service continues to face further pressures with the recent closure of a number of care homes and an increasing number of the elderly population becoming eligible for Council support.

The original budget included risk reserves of which £1.3m could be used to mitigate further any overspend and at the same time there is a £768k risk management reserve. The Council has yet to decide whether to utilise these reserves and is looking to reduce the overspend through other means such as reduction of expenditure.

As noted in the Medium Term Financial Plan the Council's costs grow each year as a result of inflation, salary increases and changes to pension contributions. Added to this the increased demand and new responsibilities in adult social care and the forecast levels of funding means that the Council would be facing a funding gap of £23m by 2020/21 before considering Council Tax increases or savings plans

There is a risk that the Council will be unable to mitigate the overspend against the budget and in particular Adult Social Care. This could lead to further pressure on the 2019/20 budget.

Over the eight previous years, prior to 2018/19 the Council has had to find £55m of revenue savings which has been achieved through a combination of finding efficiencies, making staff reductions, transforming services and generating income. The 2017/18 outturn showed an overspend of £276k against a net revenue budget of £117.4m which was caused by an overspend in Communities offset against underspends in Economy and Environment and Resources. In order to meet funding available the revenue budget included £4.712m savings and income generation. This programme was monitored throughout the year and 93% (£4.4m) of all savings were delivered.

The 2018/19 budget was £119.4m which included a savings an income programme of £5.2m. The 2018/19 budget notably included an increase in the Communities budget, the service line responsible for managing demand led services, of 10.7% (£6.55m) to allow for the known pressures within the service. This is indicative that the Council is aware of the issues and financial pressures that it faces and has looked to budget accordingly based on realistic assumptions and prior period information. Notably the budget identifies budget pressures on a line by line basis and these include:

- Increase in waste costs due to expansion of housing within the Borough
- Adult Social Care modelled inflationary increases
- Adult Social care commissioning costs
- Children's placement budgets

It further notes the pressures applied to funding sources and that 75% of all funding is received from Council Tax. The pressure on income has been relieved slightly by the inclusion of Berkshire in the latest business rate retention pilot that allows the County to retain 75% of all business rates collected

Alongside the revenue budget the Council also maintains a Property Investment Strategy which was adopted by the council on 9th May 2017. The strategy identifies a number of key metrics that drive decision making which include:

- Asset categorisation including a net yield of over 6% which can be lower for key factors such as a very strong tenant covenant or and unexpired lease term of 9 years or more
- Geographical weighting with greater weight being allocated to those assets in the South East with a spread within a number of regions to smooth potential poor performance in an individual area
- A mixed portfolio between industrial, retail and offices to provide protection from over exposure in one specific area.

The property investment strategy is a central tenant of the Council's overall strategy to ensure the continued delivery of service and to close the gap within the MTFS. The Property Strategy in place demonstrates that the Council have considered what the key metrics are and how they will manage and monitor the portfolio. The strategy outlines that Montagu Evans, as specialists, will be employed to identify opportunities and will also be asked to partake in quarterly and annual reviews. The competition within the market is robust and therefore the Council need to ensure that they remain flexible in their approach

The Q1 outturn forecast report notes that the forecast is a £1.3m overspend mainly due to overspends in Communities.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Findings

The overspend is due to pressures over and above those modelled within the budget and is reflective of a national issues facing those Council's who are responsible for delivering Adult Social Care. Mitigations to address the issue have been put in place including the slowing of expenditure through restrictions on spend, and in particular within Adult Social Care, by enforcing tighter approval processes.. The Council also maintains a number of risk reserves and the current position does not factor in the use of these earmarked reserves. These are approximately £966k which reduce the overspend to £334k.

At Q2 the forecast outturn remained at £1.3m overspend and again the issues facing the Council are the same that it was addressing at the end of Q1. There continued to be pressures facing Adult Social Care over and above the modelled forecast and the same mitigations still applied. The continued pressure against the modelled forecast raises questions over the accuracy of the original assumptions and whether this is fit for purpose.

At Q3 the Council's forecast outturn position is a £250k overspend which is a £1m reduction from the previous forecast position reported to members. This was achieved through the slowing of expenditure and the release of £500k from the risk management budget and £812k from available risk reserves. Whilst there has been some improvement the Council still face pressures from Adult Social Care services and this continued pressure will need to be addressed for future budgeting processes. Further pressure on the position arose due to the Council forecasting to deliver only 78% of savings. This left a further shortfall of £1.1m which again will be mitigated by the use of risk reserves and capital flexibilities under the capital flexibilities programme.

The outturn (Q4) showed that the Council had faced a potential £3.3m overspend which was mitigated through £1.7m in slowdown, £912k in use of reserves and £850k in capital flexibilities to deliver a balanced budget at year end. There continues to be large overspend in Communities predominantly around Adult Social Care and this will remain the biggest challenge to the Council going forward. There has, however, been a minimal impact on reserves, through the Council's management of the overspend. Therefore, reserves remain at an adequate level.

Conclusion

The Council have delivered a balanced budget with a small impact on reserves although it is noted that the reserves used were identified to mitigate the risk of overspending against the budget. There has been no impact on the general fund reserves and these remain at an adequate level for the Council.

The continued overspend in Adult Social Care, over and above the modelled forecast, indicates that the processes and assumptions for identifying these increases is not robust enough and should be revisited to ensure these are realistic and provide assurances that the budget is appropriate for the service delivery.

The Property Investment Strategy has delegated authority to make investment decisions to the Performance Investment Board. Whilst this is appropriate the minutes of these meetings are not public and it is not clear what information members receive in regards to decisions made or whether they are aware of investments that have not been actioned. Further, the link with financial performance through the finance reporting to Executive is not clear and therefore it is not possible to ascertain whether members receive information in a timely manner to allow robust challenge of decision making. We have raised recommendations in regards to these areas.

We conclude that the Council have appropriate arrangements in place for achieving value for money.

Independence and ethics

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 confirm that we, as a firm, and each covered person, 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 which sets

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services were identified.

Action plan

We have identified eight recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>1</p> <p>●</p> <p>Medium</p>	<p>The Council have a number of Investment Properties that should be revalued every year as per the requirements of the code. The Council have two investment properties purchased in March 2018 that have not been revalued in 2018-19 and therefore are not compliant with the Code</p>	<p>The Council should ensure that all investment properties are revalued in the financial year to ensure compliance with code requirements.</p> <p>Management response</p> <p>Six investment properties were not revalued as per code guidance. Four properties were purchased during 2018/19, one in March 2018, on this basis the management decision was taken not to revalue the properties. Two properties related to purchases in 2017/18, one of which was actually a deposit and not a full purchase. The Council has reviewed its processes and procedures in place for the valuation of assets including investment properties, moving forward all investment properties will be revalued in compliance with the code.</p>
<p>2</p> <p>●</p> <p>Medium</p>	<p>A review of the draft statement of accounts identified a number of disclosures that were not included and disclosures that were not compliant with the requirements of the code including fair value hierarchy and IFRS9 transition requirements</p>	<p>The Council should review the Code and any changes to disclosure requirements as a result of changes in accounting standards to ensure that the draft statement of accounts are compliant before the commencement of the audit</p> <p>Management response</p> <p>For the 2019-20 closedown process the Council is reworking its project plan to provide further time for review, including an external review prior to the section 151 sign off at the end of May.</p>
<p>3</p> <p>●</p> <p>Medium</p>	<p>The code requires that Local Authorities disclose the value of assets revalued in the year and the date at which land and building assets were last revalued. This analysis was not included within the statement of accounts and was therefore not code compliant</p>	<p>The Council should ensure that the analysis of when assets have been revalued to demonstrate current value is included within the statement of accounts</p> <p>Management response</p> <p>The Council has revised this analysis in the final set of financial statements for 2018-19 and this work has been built into the project plan for the 2019-20 closedown.</p>

Key

- High priority – Significant effect on Council's control systems or financial environment that requires urgent attention
- Medium priority – There is some impact on Council's control systems or financial environment that requires attention to address in the medium term
- Low priority – To move the Council to best practice

Action plan





We have identified eight recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>4</p> <p>●</p> <p>Medium</p>	<p>A review of the budget monitoring as part of the VfM conclusion identified significant overspends in Adult Social Care above those modelled as part of the budgeting process. There is a risk that a failure to properly estimate the required service cost could lead to overspends in services and the depletion of reserves as a result.</p>	<p>The Council should review the modelling process employed to identify future Adult Social Care expenditure to ensure that it is realistic to avoid overspends in the service and potential impact on reserves</p> <p>Management response</p> <p>The Council has revised its modelling for Adult Social Care and Children's Social Care demand led budgets from 2019-20. The modelling is closely reviewed on a regular basis and has been highlighted in the quarterly reports presented to the Executive and Overview & Scrutiny Management Committee. The budget papers for 2020-21 clearly demonstrate the basis of the social care modelling as well as the current trajectory of spend.</p>
<p>5</p> <p>●</p> <p>Medium</p>	<p>The Council's Performance Investment Strategy does not report to members. The minutes of the meeting are not public and it is unclear as to what is and is not reported to members. Further it is unclear as to how the performance is linked to the financial outturn monitoring and whether there is an opportunity for Members at a Council or Executive level to challenge decisions made</p>	<p>The Council should review the overall reporting arrangements of performance within the Property Investment Strategy. This should include a clear link to financial performance, impact on the revenue budget and disclosure of reasons why opportunities have been taken as well as those rejected</p> <p>Management response</p> <p>The members of the Property Investment Strategy Board receive quarterly updates from the Council's external advisors which link to the revenue budget position. The strategy has also recently been reviewed by the Overview & Scrutiny Management Committee and a revised Strategy is coming to Full Council on the 3rd March.</p>

Key

- High priority – Significant effect on Council's control systems or financial environment that requires urgent attention
- Medium priority – There is some impact on Council's control systems or financial environment that requires attention to address in the medium term
- Low priority – To move the Council to best practice

Action plan

	Assessment	Issue and risk	Recommendations
6	 High	The analysis of when assets were last revalued includes £11.1m of assets that have not been revalued since 2012/13 or prior and 2013/14. Review of the this balance identified assets that are no longer owned by the Council, previous revaluations that had not been correctly processed and assets incorrectly classified. The Code requires that assets are revalued within an appropriate timeline and no more than five years. These assets have not been revalued within this timeline and there is a risk that the variance between the current value and carrying value may be material	<p>The Council should review all assets to ensure that they have been revalued within an appropriate timeframe to ensure that the variance between carrying value and current value is not material.</p> <p>Management response</p> <p>The Council has revised its processes and procedures for the review and reconciliation of assets held within the Council's central fixed assets register and assets held within the accounting system assets module, with a view to timely identification of discrepancies. A full reconciliation of the two systems is underway which will inform revaluation schedules moving forward in compliance with the code.</p>
7	 Medium	Detailed transaction testing identified a case where supporting document could not be provided and therefore we are unable to confirm that the value has been correctly included. There is a risk that items will be incorrectly disclosed in the accounts leading to a potential overstatement. An unadjusted misstatement has been identified	<p>The Council should ensure that all supporting documentation is retained and can be accessed when requested in order to provide evidence for figures disclosed within the statement of accounts..</p> <p>Management response</p> <p>The Council has reviewed its processes and procedures to address compliance issues moving forward.</p>
8	 High	Review of PPE opening balanced identified approximately £12m of assets incorrectly included due to either duplication or failure to derecognise assets that have previously been disposed of. This has led to the overstatement of opening balances and has resulted in a Prior Period Adjustment.	<p>The Council should review the fixed asset register to ensure that all assets included are correctly disclosed and that balances in the statement of account are correctly stated</p> <p>Management response</p> <p>The Council has revised its processes and procedures for the review and reconciliation of assets held within the Council's central fixed assets register and assets held within the accounting system assets module, with a view to timely identification of discrepancies.</p>
9	 Medium	Review of PPE opening balances identified a number of assets that the Council has failed to derecognise as a result of disposal. Recognition of these in the 2018/19 accounts has led to the identification of a material balance for disposals	<p>The Council should review the fixed asset register to ensure that all assets included are correctly disclosed and that balances in the statement of account are correctly stated</p> <p>Management response</p> <p>The Council has revised its processes and procedures for the review and reconciliation of assets held within the Council's central fixed assets register and assets held within the accounting system assets module, with a view to timely identification of discrepancies.</p>

Key

 High priority – Significant effect on Council's control systems or financial environment that requires urgent attention

 Medium priority – There is some impact on Council's control systems or financial environment that requires attention to address in the medium term

 Low priority – To move the Council to best practice

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Cash flow Statement £000	Impact on total net expenditure £'000
1 The McCloud ruling has required the recognition of further liabilities meaning that the total comprehensive income and expenditure figure is overstated. The charges to the CIES were reversed to the Pension Reserve through the Movement in Reserves Statement. A number of notes to the financial statements were also updated to reflect the updated transactions and balances	4,825			4,825
2 The McCloud ruling has required the recognition of further liabilities meaning that other long term liabilities and unusable reserves are both understated		4,825		
3 Review of the Cash Flow statement identified that the Council had included NNDR collection twice and had omitted the Council Tax collection which is a £25.545m variance. Further a contribution of £60.129m to Bracknell had been incorrectly omitted.			(34,584)	
4 Errors were identified in the calculation of the taxation figure disclosed in the cashflow statement. This has impact the calculation of sale of goods and rendering of services			28,560	
5 A number of other errors have been identified in the calculation of balances within the cash flow statement that require adjustment			1,810	
6 Review of opening balances identified that there were a number of assets incorrectly included due to the Council either failing to remove assets previously disposed of or duplication of assets already included.		(12,000)		

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Cash flow Statement £000	Impact on total net expenditure £'000
7 There are a number of assets that have not been revalued within the prescribed CIPFA code 5 year period and subsequent revaluation has resulted in an increase in the revaluation of fixed assets	-65,959			
8 There are a number of assets that have not been revalued within the prescribed CIPFA code 5 year period and subsequent revaluation has resulted in an increase in the value of fixed assets		64,850		
9 There are a number of creditor transactions that relate to payments made subsequent to closure of the general ledger. These should be debtor balances and have been reclassified appropriately in the balance sheet		(6,043) Short Term Debtors 6,043 Short Term Creditors		
10 Adjustment to usable reserves to reflect change as a result of the revaluation of fixed assets		(65,355)		
11 Reclassification of provision for NNDR appeals incorrectly included within the debtors balance		(1,565) Short Term Debtors 1,565 Provisions		
12 Adjustment to net cost of services for communities directorate as a result of the revaluation of fixed assets to reflect revaluation and depreciation charges		(4,035)		
13 Reclassification, disposals and reclassification changes for investment properties		328		

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Cash flow Statement £000	Impact on total net expenditure £'000
14 Correction for McCloud adjustment including correction for loss on disposal and gross expenditure from revenue account correction			2,309	
15 Correction for inclusion of capital receipt from proceeds from sale of PPE and Investment properties			1,000	
16 Correction for inclusion of capital receipt from other payments for financing activities			1,000	
Overall impact	(£61,134)	(£11,387)	£95	£(61,134)

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
IFRS 9 transition	There has been a change in accounting standards from IAS39 to IFRS9 in 2018/19. This required a disclosure of the adjustments to financial assets and liabilities as a result of the change in accounting standards which was not disclosed in the draft statement of accounts	The Council should review the requirements of IFRS 9 and ensure that the disclosures in the statement of accounts are compliant with the new requirements	✓
Fair Value Hierarchy	The Council own a number of investment properties which are valued on an annual basis at fair value. This requires a classification based on the observable market inputs used when valuing assets and these assumptions should be disclosed within the statement of accounts as a fair value hierarchy	The Council should ensure that the statement of accounts include a consideration of the fair value hierarchy and the classification of those assets valued at fair value	✓
Revaluation table	There is a code requirement that Local Authorities disclose the value of assets revalued on an annual basis over a five year rolling period.	The Council should include a disclosure showing the value of assets valued on annual basis over a five year period	✓
Asset accrual	Review of asset accruals identified one asset that related to 2017/18 but had not been accrued for and has been capitalised in 2018/19. The value of the accrual is £41k	<p>The Council should ensure all accruals are made for the period in which the service or asset relates to</p> <p>Management response The identified discrepancy is minor in value and hence has not been adjusted within the 2018/19 accounts.</p>	
Depreciation	Review of the depreciation calculation identified that the calculation is based on a reducing balance method and not a straight line basis as disclosed in the statement of accounts	The Council should ensure that policies disclosed are consistent with the methodology applied in calculating the disclosure	✓
Audit Fee	The Code requires that audit fees disclosed in the accounts agree to the amounts notified by Auditors in line with the PSAA contract. Non audit fees should be disclosed separately	The Council should ensure that audit fees are appropriately disclosed and reflective of figures reported to members	✓

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Employee Remuneration	An analysis of employees paid over £50k within 2018-19 identified that these included employees who have left the Council. Per the Code requirements these should not be included	The Council should remove those employees that have left the Council from the disclosure to ensure compliance with the Code	✓
Disclosure of provision for NNDR appeal	The Council had incorrectly classified the provision for the NNDR appeal as part of the bad debt provision netting off short term debtors. This should be disclosed separately as part of the provision disclosure within the statement of accounts	The provision for the NNDR appeal should be separately disclosed within provisions and not netted	✓
Formal letter with valuer	The Council does not have a formal letter of engagement setting out the scope of work to be undertaken by Wilks Head and Eve as the Council's valuers.	<p>A formal letter of engagement setting out the scope of the work to be completed and agreed timelines should be agreed with the valuers.</p> <p>Management response</p> <p>The Council has obtained retrospective confirmation of engagement. The Council acknowledges a formal letter relating to engagement of our external valuers for the financial year 2018/19 could not be provided at the time of the audit. Moving forward the Council will ensure it meets with requirements and a letter of engagement setting out the agreed terms of that engagement is available.'</p>	
Reserves note	There is a code requirement that separate disclosure of the capital receipts, capital grants unapplied and pension movements be made within the analysis of unusable reserves. This was not included within the draft statement of accounts	The Council should ensure all unusable reserve disclosure requirements are included within the statement of accounts	✓
PPE disclosure	Revaluation adjustments should be disclosed within the Property, Plant and Equipment analysis to show the impact on the CIES statement within the year	The Council should ensure all PPE disclosures are compliant with the Code	✓
Council Tax note – Collection Fund	Members of the armed services do not pay Council Tax directly to the Council and this is accounted for through the MOD contribution. This contribution of £500k had been recognised within the Collection Fund but had not been recognised in Council Tax Income and therefore this did not reconcile to the collection fund amount.	The Collection fund should be reviewed to ensure that all contributions received have been appropriately recognised within the financial year.	✓

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Council Tax base did not agree to supporting documentation	Council tax precepts are based on the number of band D properties within a Local Authority's boundary. Testing of the data identified that this did not reconcile to the figures reported in the statement of accounts although there is no impact on the collection fund figures.	The Council should review all the information within the statement of accounts to ensure consistency with underlying data.	✓
Transfer of asset from operational to investments	One asset was transferred from operational assets to investment assets in 2018/19. The Code requires that the asset should be revalued at fair value upon transfer and this has not been undertaken.	<p>The Council should ensure that revaluations undertaken are in line with the requirements of the code and completed on a timely basis.</p> <p>Management response</p> <p>The issue is notes and processes and procedures have been reviewed to ensure moving forward revaluations are undertaken in compliance with the code.</p>	
Restatement of Income and Expenditure	The council had completed a restatement of prior year figures as a result of issues found in the prior year audit. The Code requires that all restatements are labelled as such and this was not included in the draft account	The Council should ensure that all prior year restatements are appropriately labelled as such	✓

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. [The misclassifications identified below have a non trivial impact on notes supporting the primary statements. Overall adjustments have been reflected on pages 23 - 25](#)

Disclosure omission	Balance (£'000)	Detail	Adjusted?
Note 9 – Expenditure and income analysed by nature – Expenditure Employee Benefits Expenses	74,006	School payroll costs were originally included in other service expenditure and should have been included in employee benefits expenses	✓
	-313	IAS19 charge costs originally included in other service expenditure and should have been included in employee benefits expenses	
	4,825	McCloud restatement	
	-5,552	Agency costs were originally included in other service expenditure and should have been included in employee benefits expenses	
Note 9 – Expenditure and income analysed by nature – Expenditure Other Services Expenses	-74,006	School payroll costs were originally included in other service expenditure and should have been included in employee benefits expenses	✓
	313	IAS19 charge costs originally included in other service expenditure and should have been included in employee benefits expenses	
	5,552	Agency costs were originally included in other service expenditure and should have been included in employee benefits expenses	
Note 9 – Expenditure and income analysed by nature – Expenditure Depreciation, Amortisation, Impairment	-4,161	Adjustments as a result of the revaluation exercise undertaken following review of fixed assets	✓
Note 20 – Movements in Property, Plant & Equipment	-8,580	Items incorrectly included in the opening balances for 2018/19 and subsequently disposed of.	✓
	37,240	Movement as a result of the revaluation exercise undertaken following review of fixed assets	
	-419	Reclassification between categories	
	427	Additional depreciation as a result of revaluation exercise	
	32,362	Depreciation written out of the revaluation reserve as a result of the revaluation exercise undertaken following a review of fixed assets	

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. The misclassifications identified below have a non trivial impact on notes supporting the primary statements. Overall adjustments have been reflected on pages 23 - 25

Disclosure omission	Balance (£'000)	Detail	Adjusted?
Note 24 – Capital Expenditure	6,027 -6,027	MRP calculation originally include the loans principal repaid in the year. This is not part of the calculation and has been reclassified	✓
Note 25 – Financial Instruments	-1,818 1,818	Debtors held at amortised costs included cash in transit that has been moved from creditors to reduce debtors to reflect payments made after the closure of the general ledger	✓
Note 29 – Debtors	-6,043 1,565	Cash in transit adjustment to reflect payments of transactions post the closure of the general ledger Adjustment for NNDR provisions for appeals that were included within debtors rather than as a separate provision	✓
Note 30 – Creditors	6,043	Cash in transit adjustment to reflect payments of transactions post the closure of the general ledger	✓
Note 31 – Provision	-1,565	Adjustment for NNDR provisions for appeals that were included within debtors rather than as a separate provision	✓
Note 32 – Unusable Reserves	-65,875 4,825	Adjustment to reserves to reflect the change in value of fixed assets as a result of the revaluation exercise McCloud adjustment	✓
Note 32 – Revaluation reserve	-65,959	Adjustment to reserves to reflect the change in value of fixed assets as a result of the revaluation exercise	✓

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. The misclassifications identified below have a non trivial impact on notes supporting the primary statements. Overall adjustments have been reflected on pages 23 - 25

Disclosure omission	Balance (£'000)	Detail	Adjusted?
Note 32 – Capital Adjustment Account	-6,629	Reclassification of loan principal repaid incorrectly included within the MRP calculation	✓
	602	Reclassification of MRP following review and reclassification of the loan principal repaid incorrectly included	
	6,027	Reclassification of annuity loan principle following reclassification of loan principal repaid	
	-5,252	Reclassification between the external funding of REFCUS and REFCUS assets charged in line with the requirements of the code	
	5,252		
	-3,734	Adjustment to impaired assets as a result of the fixed assets revaluation exercise	
Note 35 – PFI	-482	Correction of depreciation	✓
Note 36 – Retirement benefit	4,825	Correction for McCloud review. Adjustment is between past service cost, including curtailments and present value of liabilities. There is a further adjustment between reversal of net charges made to surplus or deficit on the provision of services for post employment benefits and past service costs, including curtailments	✓
	-4,825		
Note 37 – Net Cashflow – Contribution to/(from) reserves	-1,358	Adjustment on the increase/decrease between debtors and creditors and removal of adjustment in original draft statements	✓
Note 37 – Net Cashflow – (increase)/decrease in debtors	-6,696	Movement from provision from bad debts within debtors to provision to reflect correct disclosure as per the Code	✓
Note 37 – Net Cashflow – Increase/(decrease) in creditors	6,057	Movement as a result of cash in transit correction for transactions that occurred post the closing of the general ledger	✓

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. The misclassifications identified below have a non trivial impact on notes supporting the primary statements. Overall adjustments have been reflected on pages 23 - 25

Disclosure omission	Balance (£'000)	Detail	Adjusted?
Collection Fund I&E Account	500	Reclassification of contribution from Ministry of Defence to reflect correct treatment in line with the code	✓
	-500		
Note 43 – MOD contribution in lieu of Council Tax	-500	As per the code the MOD make a contribution in lieu of Council Tax which should be disclosed separately from council tax collection in line with the requirement of the codes	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Governance and Ethics Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	The Council have capitalised an accrual in 2018/19 but cannot provide any evidence to support the valuation of the accrual	325	325	325	Not material
2	The Council cannot provide evidence for two items included in PPE opening balances. The extrapolated balance of this error is £581k	581	581	581	Not material
Overall impact		£906	£906	£906	

Impact of prior year unadjusted misstatements

No prior year unadjusted misstatements.

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £74,423. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

Update to our risk assessment – Additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment. Further additional fees may be payable if additional audit work is required as a result of audit work that identifies further issues.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June – July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	3,000
Pensions – IAS 19	July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	2,500
PPE Valuation – work of experts	July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
Further audit procedures required to complete testing	July 2019 – February 2020	We anticipate requiring additional audit fees for work to support the required financial statements audit in a number of areas. This will be discussed with officers and presented to the Governance and Ethics Committee as part of our Annual Audit Letter, for information, prior to submitting to PSAA for approval	TBC

Total Audit Fees

Audit fee	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
Council Audit – scale fee	96,653	74,423	74,423
Additional Audit Fee (see above)	-	-	8,500
Total audit fees (excl VAT)	96,653	74,423	82,923

Audit opinion (draft)

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of West Berkshire Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of West Berkshire Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Income and Expenditure Statement Account and notes to the financial statements, including the accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Financial Statements 2018/19, the Narrative Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and

Audit opinion (draft)

controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Financial Statements 2018/19 and the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 20, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Financial Statements, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local

authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Governance and Ethics Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of

resources for the year ended 31 March 2019.

Audit opinion (draft)

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of West Berkshire Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature

Barrie Morris, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor
Bristol

[Date]



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