

Supplemental Items for Governance and Ethics Committee

Monday, 1st February, 2021 at 5.00 pm
Via Zoom

Part I

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| 5 | The Audit Findings for West Berkshire Council - Financial Year Ended 31 March 2020 (GE3934)
To receive the report from the external auditors. | 1 - 38 |
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Sarah Clarke
Service Director: Strategy and Governance

For further information about this/these item(s), or to inspect any background documents referred to in Part I reports, please contact Moira Fraser on 519045
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The Audit Findings for West Berkshire Council – Financial Year Ended 31 March 2020

Committee considering report:	Governance and Ethics Committee
Date of Committee:	1 February 2021
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member agreed report:	21.1.2021
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	GE3934

1 Purpose of the Report

1.1 This report provides members with the draft audit findings report provided by Grant Thornton in respect of their external review of the 2019/20 Financial Statements. The purpose of the report is to consider the findings of the external auditors and any implications for the Governance and Ethics Committee in approving the financial statements.

2 Recommendation

2.1 For members to note this report.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	The cost of the audit has been subject to audit fee amendments presented to the G&E committee previously.
Human Resource:	Not applicable
Legal:	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), the external auditors are required to report whether, in their opinion, the Council's financial statements:

	<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. 			
Risk Management:	Not applicable			
Property:	Not applicable			
Policy:	Not applicable			
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		

Digital Services Impact:		X		
Council Strategy Priorities:		X		
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes (Executive Director for Resources, S151 Officer) Andy Walker (Head of Finance & Property)			

4 Executive Summary

- 4.1 This report provides members with the draft audit findings report provided by Grant Thornton in respect of their external review of the 2019/20 Financial Statements.
- 4.2 The Council's appointed external auditors are required under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), to report on, in their opinion, if the Council's financial statements:
 - 4.3 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.
 - 4.4 The external auditors are also required to report on 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 knowledge obtained in the process of the audit, or otherwise appears to be materially misstated.
 - 4.5 The external audit of the 2019/20 Financial Statements was commenced in September 2019. This was later than expected due to the Covid-19 pandemic where deadlines were amended. The Council was allowed an extension for the presentation of the draft financial statements from May 2020 to August 2020. Audit deadlines were extended by a month to November 2020. There have been some delays to the audit, including awaiting the completion of the audit of the Berkshire Pension Fund hosted by the Royal Borough of Windsor and Maidenhead.
- 4.6 The draft audit findings report produced by Grant Thornton is included in appendix A.

5 Supporting Information

Summary of findings

- 5.1 The audit report highlights the findings by GT. In summary, the accounts are due to certified with no qualifications. GT have raised a number of issues for the Council to work further on the future financial year. There has also been an improvement on audit process between the Council and GT compared to previous year and an improvement in some of the Council's preparations, with more focus made on the review of the financial statements, working papers and preparation timescales.
- 5.2 The audit report also highlighted an unqualified opinion on the Value for Money assessment and completed the audit requirement that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 5.3 There have been some important findings from GT for the Council to work on in the future. The main three areas being:
- Further improvement required to the General Ledger which will be addressed through further enhancements of the current system and an upgrade of the existing system in the next financial year.
 - Further, and more effective review, of the financial statements in respect of property plant and equipment
 - An enhanced focus on the fixed asset register and further work on cleansing and improving this area of the financial system.
- 5.4 An action plan can be found in the audit findings report with a management response against each recommendation to address the issues raised.

6 Other options considered

- 6.1 No other options considered; this is a statutory requirement.

7 Conclusion

- 7.1 The report highlights an unqualified opinion on the main financial statements and the Value for Money. This is an important summary report for the Council to demonstrate its continued strong financial stewardship.

8 Appendices

- 8.1 Appendix A – GT Audit Findings report on the 2019-20 financial statements

Background Papers:

none

Subject to Call-In:

Yes: No:

- The item is due to be referred to Council for final approval
- Delays in implementation could have serious financial implications for the Council
- Delays in implementation could compromise the Council's position
- Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months
- Item is Urgent Key Decision
- Report is to note only
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The Audit Findings for West Berkshire Council

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1 February 2021

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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 2020 for those charged with governance.

<p>Covid-19</p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council.</p> <p>The Council have faced a number of challenges including operational capacity, remote working and delays from third parties including external confirmation. The reduction in income and uncertainty over future funding required further consideration by the Council over future cash flows.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and updated our audit plan to reflect this on 27 April 2020. We reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both the Council and audit teams have had to develop new remote access working arrangements including remote accessing financial systems, video calling and physical verification of completeness and accuracy of information produced by the entity. There have also been key challenges for the Council such access to key data from non finance staff members and changes to governance requirements.</p> <p>The additional requirements and inefficiencies of remote working, coupled with the absence of key staff during the audit and the delay in the receipt of the IAS19 assurances from the Pension Fund auditor, has meant that the planned completion of the audit by 30 November 2020 has not been possible.</p>
<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 its 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 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 commenced remotely during October 2020 and is ongoing. Our findings are summarised on pages 5 to 16. We have identified one adjustment to the financial statements that has not required an adjustment to the Council's Comprehensive Income and Expenditure Statement and require a £6.1m adjustment to the balance sheet.</p> <p>Our work is ongoing and from the work completed to date there are no matters outside of those identified of which we are aware that would require modification of our audit opinion or material changes to the financial statements. Our testing and review of the following areas is not complete:</p> <ul style="list-style-type: none"> • property plant and equipment revaluation testing including investment properties and leases; • receipt and review of the Pension Fund Auditor letter of Assurance; • going concern review • receipt of management representation letter; and • review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph highlighting valuation material uncertainties on both the Council's and Pension Fund property assets.</p>

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 2020 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 have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion. Our findings on the work to date are summarised on pages 17 to 20.</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 • certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We continue to undertake our work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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 will be 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 had to alter our audit plan, as communicated to you on 27 April 2020, to reflect our response to the Covid-19 pandemic.

Conclusion

We continue to work on our audit of your financial statements and subject to completion of this work and any outstanding queries being resolved, we anticipate issuing an unqualified audit opinion. We are awaiting the assurance letter from the pension fund auditor and will sign once this has been received and reviewed. We are expecting to receive the letter in early to mid-February and will be able to issue the opinion once this work is complete. Other work outstanding is:

- property plant and equipment revaluation testing including investment properties and leases;
- receipt and review of the Pension Fund Auditor letter of Assurance
- going concern review
- receipt of management representation letter; and
- review of the final set of financial statements.

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 levels remain the same as reported in our audit plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	5,430,000	Materiality has been based on 1.5% of the Authority's gross expenditure
Performance materiality	4,072,000	Our performance materiality has been set at 75% of our overall materiality
Trivial matters	272,000	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 audit risks

Risks identified in our Audit Plan

Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 28 August 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence; and
- engaged the use of auditor experts for higher risk audited bodies for asset valuations.

There are no matters to bring to your attention.

Significant audit risks

Risks identified in our Audit Plan

Improper revenue recognition

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

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.

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

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.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement

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 determined 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
- reviewed assurances from Those Charged with Governance and management in relation to fraud, law and regulations.

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

Significant audit risks

Risks identified in our Audit Plan

Valuation of land and buildings Including Investment Properties

The Council revalues its land and buildings on a rolling basis, with assets physically inspected at least every five years, to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

Auditor commentary

We have:

- 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; and
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding.
- testing revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluating 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.

Our work has identified that the classification of investment property land within the fixed asset register and subsequently the statement of accounts had been incorrectly disclosed.

The valuation of investment properties by the valuer included both land and buildings in a single valuation which has been agreed to the value of buildings disclosed as investment properties within the fixed asset register. However, the Council has also disclosed investment property land separately in the fixed asset register and has therefore duplicated the value of land within both the fixed asset register and the statement of accounts. This has led to an over statement of approximately £6.1m in investment property values within the balance sheet. This is a material misstatement and requires the statements to be updated to reflect the correct value.

A sample test of assets identified one asset with a value of £2.5m that has been classified as an investment property within the financial statements when it should be disclosed as 'other land and building'.

We also considered that, in light of the Covid-19 pandemic, and in line with RICS guidance to Valuers, there is a material uncertainty in the valuation of assets at the balance sheet date. Both of these have been agreed with management and are considered later within this report.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£288.7 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

We:

- 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; and
- 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.

Our work in this area is ongoing and we have yet to complete the following work:

- obtaining 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.

Our audit work to date has not identified any issues in respect of the Pension Fund net liability although it is anticipated that there will be a valuation material uncertainty on Pension Fund Property assets which will result in an emphasis of matter paragraph within the audit opinion


We will provide an update on this to Governance and Ethics Committee members at the meeting on 1 February 2021.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>IFRS 16 implementation has been delayed by one year</p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases</p>	<p>We have reviewed the accounting policies for the Council to gain assurance that unadopted accounting standards have been appropriately disclosed within the statement of accounts</p>	<p>We noted in the draft statement of accounts that the disclosure has been appropriately dated as per the amended timeline. We continue to review the disclosures in line with the guidance and will report any findings to management</p>
<p>Provision of supporting documentation</p> <p>As part of the audit process we require that management provide accurate reports showing the derivation of the figures within the statement of accounts that will allow us to complete our testing and, where necessary, pick a sample of transactions for further testing to ensure the accuracy and completion of the disclosures within the accounts. Issues identified with this process have a risk of creating delays and potential misstatements.</p>	<p>We have been provided with supporting documentation throughout the audit and have undertaken a range of tests to confirm the accuracy and completeness of the data that has been provided to us. Through these tests we have identified a number of issues that have required further information and have led to delays within the audit process.</p> <p>Delays and issues have been identified primarily in relation to:</p> <ul style="list-style-type: none"> • Property, plant and equipment • Expenditure records <p>Management has provided updated reports and noted that in a number of instances the required information has been provided through a bespoke report that is processed when requested rather than before the audit</p>	<p>The current iteration of the General Ledger is not configured to meet the requirements of the Council and has subsequently led to delays in the reconciliation of supporting documentation to the statement of accounts.</p> <p>These issues were identified in 2018-19 and the Council is aware of the issue. There is an exercise being undertaken by the Council to review the mapping of the general ledger and this is, in part, to address the issues outlined.</p> <p>We will continue to review supporting documentation and discuss this issue with management to minimise any future delays.</p>


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £331.899m	<p>Other land and buildings comprises £331.899m 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 2020. £160.6m of the assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £50.8m. 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. • We communicated with the valuer to get further supporting evidence for the data used in calculating the updated asset values to ensure these were consistent with expectations. • Work identified that there were a number of assets that did not have the correct Useful Economic Life assigned which had impacted on the depreciation calculation. This was below trivial and had no impact on the financial statements. • We identified one asset that has been classified incorrectly as an investment property instead of being classified as other land and building requiring an adjustment of £2.4m. <p>Our work in this area is ongoing and we discuss any further findings with management and report to those charged with governance where relevant.</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
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 2020 at £75.132m. 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 Avison Young 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 decreased by £818k in 2019/20 due to net losses from fair value adjustments.</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 Investment properties had been valued as single assets by the valuer which included both land and buildings. A comparison of this to the fixed asset register (FAR) identified that land and building had been split into separate entries. The value as per the FAR was agreed to the accounts and not to the valuers report. Further investigation identified that land value had been duplicated and therefore the accounts were overstated by approximately £6.1m. This is a material misstatement and the Council have adjusted to recognise the correct value.</p> <p>Our work in this area is ongoing and we discuss any further findings with management and report to those charged with governance where relevant.</p>	 Red

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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
Net pension liability – £288.7m	The Council's total net pension liability at 31 March 2020 is £288.7 million (PY £316.5 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 2019. 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 £66.2 million net actuarial gain during 2019/20.	<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 border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.35%</td> <td>2.35%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.70%</td> <td>2.70% - 2.90%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>2.90%</td> <td>2.85% - 2.95%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.9 / 21.5</td> <td>22.8 – 24.7 / 21.4 -23.3</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.5 / 24.1</td> <td>25.2 – 26.2 / 23.7 – 24.7</td> <td>●</td> </tr> </tbody> </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. 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.35%	2.35%	●	Pension increase rate	2.70%	2.70% - 2.90%	●	Salary growth	2.90%	2.85% - 2.95%	●	Life expectancy – Males currently aged 45 / 65	22.9 / 21.5	22.8 – 24.7 / 21.4 -23.3	●	Life expectancy – Females currently aged 45 / 65	25.5 / 24.1	25.2 – 26.2 / 23.7 – 24.7	●	 Green
Assumption	Actuary Value	PwC range	Assessment																								
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Life expectancy – Females currently aged 45 / 65	25.5 / 24.1	25.2 – 26.2 / 23.7 – 24.7	●																								
		We have still to receive the letter of assurance from the Pension Fund Auditor and will report any issues from this upon completion of the review.																									

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

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 2023/24 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 yet to complete our work in this area and will report any issues to management and those charged with governance upon completion.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Governance and Ethics Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A standard letter of representation will be requested from the Council, which will be considered by the Governance and Ethics Committee.
Confirmation requests from third parties	<ul style="list-style-type: none"> <li data-bbox="492 826 2154 938">• We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. We have yet to receive confirmation for three investment balances and continue to work with management to complete this process. Any issues identified from this work will be reported to members at Governance and Ethics Committee. <li data-bbox="492 938 2154 1082">• 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.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> <li data-bbox="492 1177 2154 1225">• All information and explanations requested from management were provided. <li data-bbox="492 1225 2154 1283">• 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
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, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our work in this area is not yet complete and to date no inconsistencies have been identified. We plan to issue an unmodified opinion in this respect upon completion of the work.</p>
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>Our work in this area is not yet complete and to date we have nothing to report on these matters. Any issues identified will be reported to the Governance and Ethics Committee.</p>
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. This work is not required at West Berkshire Council as they do not exceed the threshold required for the completion of this work.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of West Berkshire Council in the audit report.</p>

Value for Money

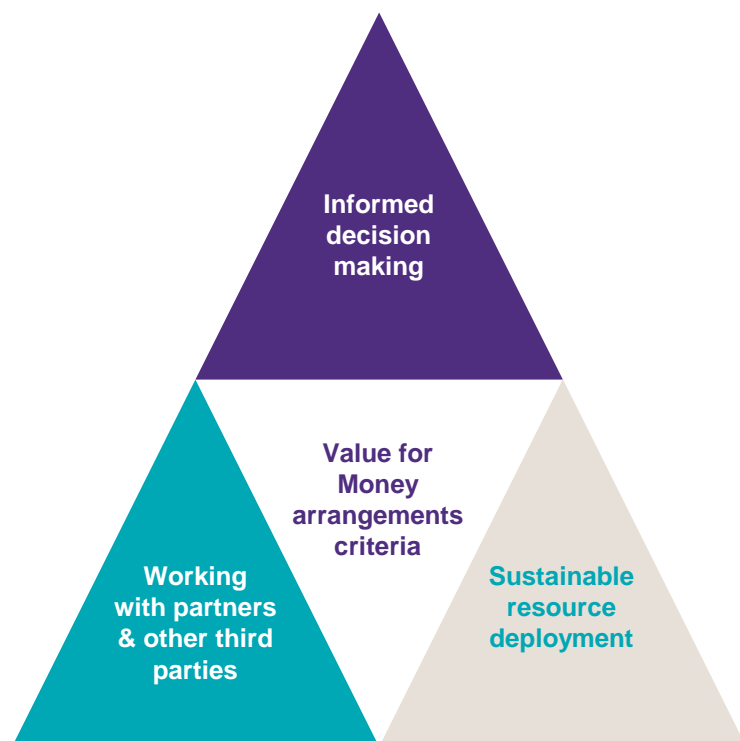
Background to our VFM approach

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 April 2020. 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 April 2020 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 27 April 2020

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 risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks 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 continuing pressures from demand led services and the financial implications from the increase in demand for Adults and Children's services, and the assumptions that the Council have in place to properly forecast future growth
- 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 18 to 19

Overall conclusion

Our work in this area continues and based on the work we have performed to date 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.

Value for Money

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

Financial Sustainability

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

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

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

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

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

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

Findings

As with all organisations within the Public Sector the Council is faced with the continued delivery of services whilst at the same time having reduced central funding. To meet this challenge the Council need to address a funding gap of £12m over three years from 2021/22 which assumes Council Tax increases of 1.99% and a 2% Council Tax additional precept for Adult Social Care over the three years. The outturn for 2018-19 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 continued to be large overspends in Communities predominantly around Adult Social Care and this still remains the biggest challenge to the Council going forward. The final position was an £81k underspend although this is with the above mitigations taken into accounts.

Against this the Council set a budget in 2019-20 of £131.1m, an increase from the prior year, and includes a savings programme of £6.2m of which £2.3m is from communities. There are a number of factors that have fed into the budget and that have a growth and inflation impact. These include:

- Pay and non-pay inflation which is an annual budget increase required for the Council to perform the same functions year on year. The Council provides for general inflationary pressures such as salary, NI and Pension increases;
- Contract inflation of which the largest single amount is the PFI contract. The Contract is based on the RPIx measure in January of which the current estimate was 2.5%
- Detailed modelling of expected cost pressures for demand led services. This modelling looks at demand trends and cost increases in order to estimate what the future expenditure will be.

The budget and the Medium Term Financial Strategy (MTFS) still have commercialisation as a key plank of the overall savings and budget delivery plan. The Council are committed to developing their commercial agenda which is changing to look at working with a wide variety of potential business partners to improve the understanding of leading technologies and building on existing models. This is allied to a nearly £70m investment property portfolio which continues to deliver income to the Council.

The 2019-20 outturn showed a continuation of the Council's improved financial position. The provisional outturn position was an underspend of £1.46m which is 1.2% of the Council's 19/20 approved revenue budget. The underspend is a large movement from quarter three where the forecast outturn was an overspend of £252k. This change has been driven by three areas:

- Adult Social Care increased the underspend to £1.34m
- CFS increased the underspend to £435k
- Education increased the underspend to £245k

Value for Money

Significant risk

Findings

Financial Sustainability

It is noted that of the three main areas that have underspent, two of these are demand led services. From discussions with management it is considered that when setting budgets there is a tendency to be over prudent and assume that those issues that could impact on spend will occur. There is also a culture of ensuring that underspends can be fully supported before reporting these and therefore issues that could impact spend are retained within the model late into the financial year. It is not considered that this approach is inappropriate and has helped the Council to deliver an underspend at the year end but further consideration could be given to whether this potentially impacts on the provision of other services or the implementation of improvements.

The major impact in 2020 has obviously been the Covid-19 pandemic. Whilst it had minimal impact on the 2019-20 position, given that it did not fully impact the Council until the final two weeks of the financial year, its impact will be felt more significantly in 2020-21 and has required further scrutiny and consideration of the Council's financial position.

As at Quarter 1 (Q1) of 2020-21, reporting showed that there was a significant impact on the budget, although this was offset by the receipt of £8.6m from central government funding, which is un-ringfenced, and there is an expectation of further funding to cover the loss of income. The assessment at this point is that the funding provided would be sufficient to meet the pressures of the 2020-21 budget although there is a recognition that the position can fluctuate and the Council cannot foresee any further restrictive actions that could be put in place which would have a potential further impact on the financial position.

As at Q1 of 2020-21 the estimated lost income and unmet savings was estimated to be £10.7m and £1.5m of funding had been transferred to services to meet pressures. There is a plan to continue this transfer on a quarterly basis. The assumptions in budget monitoring is that there will be enough funding to cover all losses. There is also a recognition that the longer term position will require further analysis and that announcements from Central Government on the funding position for Local Government, before the impact of 2021/22 and beyond is known.

The Council has set a net revenue budget of £130m for 2020-21 and at Q1 the forecast outturn is an underspend of £590k driven primarily by underspends in the People Directorate, which includes demand led services. Again this is mostly due to the forecast underspend of £844k in Adult Social Care which suggests that the position of assuming all issues will arise has been moved away from in the short term. This provides assurance that the modelling process is being adapted to reflect the nature of the movement in demographics. The Council has also agreed to not change the approach to setting Council Tax to reflect future pressures and a need for local councils to ensure income and reserves remain robust.

Conclusion:

The Council have posted a surplus in 2019-20 and have set a balanced budget for 2020-21. The change in position from overspend in Adult Social Care to underspends both in 2019-20 and forecast in 2020-21 has relieved a large amount of the pressure and provides the Council with an opportunity to re-enforce reserves and provide medium term assurance over the financial sustainability. The Council have appropriate processes in place to manage the challenge of Covid-19 and mitigate some of the risks arising.

On this basis, and noting further work is being undertaken, we are proposing to issue an unqualified conclusion and consider 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £95,023 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Action plan






We have identified 11 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 2020/21 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
 High	Review of the Fixed Asset Register (FAR) and agreement to the statement of accounts identified that one asset valued at £2.4m had been incorrectly classified as an investment property and £6.1m of Investment property land had been double counted. This has resulted in a material adjustment to the primary statements	The Council should review all supporting documentation for Property, Plant and Equipment to ensure that balances are appropriately and accurately disclosed in the statement of accounts Management response The 2019/20 Statement of Accounts has been adjusted for the £2.4m reclassification and £6.1m duplication. The Council understands the importance of completeness and accuracy within all Fixed Asset categories, and will undertake a detailed exercise to ensure that the Fixed Asset Register and supporting accounting records are fully reviewed
 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	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.. Management response Noted. The impact of Covid-19 created some challenge in providing certain third party documentation, this due primarily to the inability of Finance staff to access the Council's main office
 Medium	Substantive testing of transactions identified that the Council has an issue with providing a full breakdown of transactions and in reconciling populations to the balances disclosed in the statement of accounts. This has required management to run individual reports on an ad-hoc basis to provide the listing to Audit and has resulted in a number of errors being noted. There is a risk that the balances disclosed in the statement of accounts are either misstated or cannot be supported which could lead to a material adjustment within the primary statements	The Council should ensure that balances disclosed in the statement of accounts are fully supported by an auditable transaction listing or other supporting documentation Management response The Council appreciates the importance of a fully-mapped and reconciled accounting system and work is underway with external consultants to enhance the reporting framework allied to the production of the Statement of Accounts
 Medium Controls	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.	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 Management response The CIPFA Code will be reviewed in advance of the production of the 2020/21 Statement of Accounts to ensure that all disclosure content is compliant




-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan

We have identified 11 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 2020/21 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
 Medium	Testing of PPE disposals identified that there were a number of disposals hat related to REFCUS which had been previously incorrectly classified. The disposal was to correct this classification	<p>The Council should ensure that all assets are correctly classified and that where errors are identified the appropriate accounting actions are undertaken</p> <p>Management response</p> <p>Noted</p>
 Medium	The Code requires that the Council disclose an Expenditure Funding Analysis within the statement of accounts to show a reconciliation between the figures in the statement of accounts and the outturn figures reported to members. Review of these identified that the figures did not reconcile	<p>The Council should ensure the consistency of reporting between the statement of accounts and the figures reported to members</p> <p>Management response</p> <p>For 2020/21, a working paper will be provided that bridges the year-end financial information reported to members and the associated Statement of Accounts content</p>
 Medium	REFCUS allows the Council to fund certain revenue expenditure through capital on the basis of meeting a number of criteria. Testing is required to ensure that this has been properly and accurately applied. Testing undertaken identified £600k of expenditure for which the Council could not provide a transaction listing and therefore could not be tested.	<p>The Council should ensure that all balances within the statement of accounts are fully supported and reconciled through a transaction listing within the general ledger.</p> <p>Management response</p> <p>Noted</p>
 Medium	The Audit approach requires the identification and testing of debit balances in income. Testing of these items identified that they were expenditure items and therefore incorrectly classified. There is a net nil impact on the statement of accounts	<p>The Council should ensure that all transactions are appropriately classified within the General Ledger and subsequently the statement of accounts</p> <p>Management response</p> <p>Agreed. Review work will be undertaken to ensure that the applicable debit and credit balances have been accounted for appropriately</p>
 Low	A review of the bank reconciliation identified approximately £45k in unrepresented cheques from 2018 that remained in the workings.	<p>The Council should ensure historical items are appropriately included and that no further action can or should be taken</p> <p>Management response</p> <p>Finance is in the process of enhancing the review procedures attached to the bank reconciliation. Management appreciate the importance of ensuring that historic transactions are not included as unrepresented items within the bank reconciliation</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan

We have identified 11 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 2020/21 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
 Low	The overall balance of Grants received in advance is correct and has been agreed to supporting documentation. Testing identified that the analysis of this balance was incorrect and that it should not just be disclosed as a LEP balance	The Council should ensure that where analysis over a number of headings is required for a balance that this is done appropriately and accurately Management response The accounting implications of this observation have now been reflected within the 2019/20 Statement of Accounts
 Low	One item selected for testing with a value of £4.2m was made up of numerous transactions for which the Council are unable to provide third party evidence to support their award.	The Council should ensure supporting evidence is retained for all balances within the statement of accounts to provide assurance as part of the audit process. Management response Noted

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of West Berkshire Council's 2018/19 financial statements, which resulted in 9 recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note 1 is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	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	Testing of investment properties in 2019/20 has identified that all assets classed as Investment Properties have been revalued in the year in line with the requirements of the code.
X	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	Review of the disclosures in 2019-20 again identified that there was no disclosure of the fair value hierarchy as required by the Code. There has been an improvement in the quality of disclosures from 2018-19 although key items have been omitted. This recommendation has been raised again in 2019-20
✓	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	Value of assets revalued in the year has been disclosed in line with the requirements of the Code
✓	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	A review of Adult Social Care costs in consideration of the 2019-20 VfM conclusion noted that there had been an underspend for the financial year. Whilst the cost of Adult Social Care can fluctuate dependent on demand Management have taken sufficient steps to address this issue.
✓	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	As per Management's response in 2018-19 the Council are complying with the agreed constitutional procedures and that reporting of the investment strategy is considered appropriate. Performance of the Investment Strategy in 2019-20 has not highlighted any areas of concern and it is noted that future investment plans are currently on hold to assess future viability in line with the current issues of Brexit and Covid19.

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations

We identified the following issues in the audit of West Berkshire Council's 2018/19 financial statements, which resulted in 9 recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note 1 is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	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	Testing has identified that there are no assets that have not been valued in the five-year period recommended by the Code. Further, testing has not identified any issues that would indicate that the variance between the current value and the carrying value may be material.
x	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	Testing in 2019-20 has again identified transactions where supporting documentation could not be provided in areas such as Grants received. Whilst other audit procedures have provided assurance that the balances are fairly stated management should ensure that all relevant supporting information is retained for audit purposes. This recommendation has been raised again in 2019-20
✓	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.	Testing of opening balances in 2019-20 has not identified any issues relating to incorrectly included assets.
✓	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	Testing of opening balances in 2019-20 has not identified any issues relating to incorrectly included assets.

Assessment

- ✓ Action completed
- x Not yet addressed

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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Review of Investment property assets identified that one asset relating to Newbury football club had been incorrectly identified as an investment property and should have been identified as land		2,484	
Testing of Investment Property and agreement back to the Fixed Asset register identified that land valued a £6,078k had been separately identified. The valuation process included the value of land in the overall calculation and therefore land values have been double counted within the statement of accounts. Overall adjustment includes removal of Newbury Football Club as outlined above		(8,562)	
Unusable reserves have been overstated as a result of the double counting of Investment property land as outlined above		6,078	
Financing and Investment Income and Expenditure has been understated as a result of the fair value of the investment property. The movement reflects the change as a result of the double counting of land outlined above.	6,078		6,078
Overall impact	£6,078	£0	£6,078

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.

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?
Capital Commitments	There is a requirement within the Code that significant capital commitments be disclosed within the statement of accounts. The Council has not included this disclosure.	The Council should ensure that all disclosures required by the Code are included to accurately reflect the financial position of the Council.	✓
General disclosures	Other general amendments	Other amendments including spelling, grammar and syntax and other minor disclosures which have not been separately disclosed should be adjusted and included	✓
Investment Property Adjustment	<p>As a result of the double counting of land within Investment property and the misclassification of Newbury Football Club as an investment property the following disclosure notes have been impacted</p> <ul style="list-style-type: none"> • Note 7 – Expenditure and Funding Analysis • Note 8 – Adjustments between Accounting basis and Funding basis under regulation • Note 11 – Financing and Investment Income and Expenditure • Note 13 – Income and Expenditure analysed by nature • Note 14 – Property Plant and Equipment • Note 14.2 – Revaluations • Note 16.1 – Investment Properties • Note 16.2 – Fair value Hierarchy • Note 25 – Unusable reserves • Note 25.2 – Capital Adjustment Account • Note 34.2 – Grant Income Current Liabilities 	The Council should ensure that all disclosures are recorded accurately and that the relevant disclosures are in line with the primary statements	✓

Audit adjustments

Impact of unadjusted misstatements

No unadjusted misstatements have been identified in the work completed to date.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
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
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	

Appendix D

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	95,023	TBC
Total audit fees (excluding VAT)	£95,023	TBC

Over the past six months the Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multi-faceted and included:

- we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We have included an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.
- we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.
- the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.

We have been discussing this issue with PSAA over the past few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and the NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

As a result, we will need to consider the impact on our 2019/20 audit fee following completion of the audit. We will discuss with management. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Teacher's Pension certification	5,000	5,000
Total non- audit fees (excluding VAT)	£5,000	£5,000



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