

The Audit Findings for West Berkshire Council

Year ended 31 March 2021

March 2022



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

This Audit Findings 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. Its contents will be discussed with management and [the Governance and Ethics Committee.

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1. 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 2021 for those charged with governance.

Financial Statements

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 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.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), 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.

Our audit work has been undertaken remotely from November 2021. Our findings are summarised on pages 5 to 21. We have identified 5 material adjustments to the financial statements which have resulted in a £718k adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or further material changes to the financial statements, subject to the following outstanding matters;

- Review of the cash flow statement
- Consideration and review of management's accounting policies for infrastructure assets
- Management's response to the inquiry in relation to infrastructure assets
- receipt of management representation letter; and
- review of the final set of financial statements.

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.

Our anticipated audit report will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by July 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify a risk of significant weakness at the planning stage but did note a number of areas of focus. Our work on this is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- 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 are unable to certify the closure of the 2020-21 audit of [West Berkshire Council](#) until we complete our work in the following areas:

- Whole of Government Accounts return; and
- Completion of the value for money work as outlined above

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 and the Governance and Ethics Committee.

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;
- 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 our audit plan, as communicated to you in October 2021.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Ethics Committee meeting on 25 April 2022. These outstanding items include:

- Review of the cash flow statement
- Consideration and review of management's accounting policies for infrastructure assets
- Management's response to the inquiry in relation to infrastructure assets
- receipt of management representation letter; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote access working arrangements i.e. remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity.

2. 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.

We detail in the table below our determination of materiality for West Berkshire Council.

Council Amount (£) Qualitative factors considered

Materiality for the financial statements	5,150,000	Equates to 1.25% of the prior year gross expenditure
Performance materiality	3,860,000	Equates to 75% of materiality figure
Trivial matters	255,000	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	100,000	The senior officer remuneration disclosure in the statement of accounts has been identified as an area requiring lower materiality due to its sensitive nature.



2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
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.
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	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.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

The expenditure cycle includes fraudulent transactions

Practice note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:

“As most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition.” Public sector auditors therefore, need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit

We have considered both pay and non pay costs and considered there to be little opportunity for fraudulent transactions. Pay costs are determined by employee contracts and are standard monthly payments. Non pay costs are based on supplier invoice transactions and have to be paid within a set timeframe.

As part of the audit we have considered the completeness, accuracy and occurrence of expenditure transactions by:

- Evaluating the design and implementation effectiveness of the accounts payable process
- Testing a sample of transactions incurred around the year end to ensure these have been accounted for in the appropriate financial period
- Testing a sample of accruals made at year end that have not yet been invoiced to assess whether the valuation has been calculated on an appropriate basis.

Our audit work has not identified any issues in relation to fraudulent transactions in the expenditure cycle

Valuation of Investment Properties

The Council revalue Investment Properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£66.3m) and the sensitivity of this estimate to changes in key assumptions.

We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

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 management's expert
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- Tested revaluations made during the year to see if they had been input correctly into the Council's asset register

Our audit work has not identified any issues in relation to valuation of investment properties

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of {land and buildings}

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 2021.

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.

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.

From our work undertaken we have identified three issues. One is in relation to recording of assets on the fixed asset register (FAR) and two on the recording of transactions within the revaluation reserve.

A reconciliation of the FAR to the valuation report identified that one asset revalued in the year had been recorded to a new asset number and the previous asset number, and associated values, had not been removed which had resulted in a duplication of the asset valuation.

As part of our review of revaluations undertaken in year we undertake an assessment of the transactions posted to the revaluation reserve to ensure these have been accurately recorded. From our work we identified one asset where the valuer was required to update their valuation to reflect that an extension had been completed in year and was operational. This required an update to the GIA based on the updated floor plan.

We also identified that one asset had been updated to reflect the componentisation of the elements. The revaluation reserve has been incorrectly updated which has resulted in an overstatement of gross expenditure, within surplus/deficit on the provision of services, and in the revaluation reserve. This has required a restatement to show the correct change in both the CIES and the revaluation reserve.

These misstatement have resulted in 2 recommendations on pages 25 and 26 and the values are shown in appendix C on pages 28 to 32

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

The Authority'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.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£426.7m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

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.
- 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.

Our work in this area is complete with the exception of ongoing discussions with management over the impact of an error identified within the work completed by the auditor of Berkshire Pension Fund. Within the report it was noted that the Pension Fund had overstated private equity funds by £48,121k and West Berkshire's share of this is 13%. This equates to £6,256k and we continue to discuss with management what the appropriate treatment for this misstatement is.

We will report any updates to members when the work has been completed.

2. Financial Statements – new issues and risks

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 deficiencies identified during the year.

Issue	Commentary	Auditor view
Recognition and Presentation of Grant Income - The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income - There is a requirement to assess whether income received has conditions attached and should therefore be considered grant income or another classification of income. This will allow the Council to ensure the correction presentation of revenue in line with the Code	The Council has undertaken a review of the grant income in year and whether they are acting as principal or agent. This has identified that there are a number of grants where the conclusion from this assessment is incorrect and therefore, the accounting for the transactions is also incorrect. The Council has assessed approximately £40.7m as principal and has thus recognised both the income and expenditure within the CIES. As the Council does not have any liability for these grants these should have been recorded on the agent principal and therefore only the creditor balance should be recognised. This has required an adjustment to the CIES although the net impact is nil. This has also impacted whether the remaining balance has been correctly classified. The Council have classified the remaining covid grant balance as Grant receipts in advance as they have assessed the themselves as principal. As above, the correct treatment is for the Council to assess themselves as agent and therefore this balance should be treated as short term creditors. This has resulted in an adjustment of £6.3m Testing of revenue classed as grant income identified the following issues: - S106 developer contributions are accounted for under section 2.3 of the Code and should therefore be classified as Grants receipts in advance. The Council has classified these as creditors and therefore an adjustment of £7.4m has been made. The Council is unable to identify which of these contributions are short term and which are long term and therefore all S106 creditors are currently classed as short term. - The Council has received a loan which is due to be repaid in December 2022. This has been recorded as grant income and should be recognised as a loan in line with the agreement. Testing also identified that no liability for the repayment has been disclosed which has required an adjustment of £1.8m - Testing carried out on capital grants identified that local transport capital funding for 2021-22 has been recorded as grant income for 2020-21 and should have been recorded as grant income in advance as this relates to 2021-22.	A number of issues have been identified in the work completed on recognition and presentation of grant income. The issues have been discussed with management and amendments have been made as a result of the work undertaken. There has been one material adjustment that has impacted both the revenue and expenditure and one material adjustment that is a reclassification of S106 balances within the balance sheet. Management has made these adjustments and therefore it is considered that balances are fairly stated. Management's has a number of processes for reviewing grant income and disclosing these appropriately in the statement of accounts. The issues identified show that these processes need to be reviewed and further enhanced. A recommendation has been raised in Appendix A.

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
Employee Benefit Expenditure The Council are responsible for the funding for state schools within their boundaries and ensure that the income and expenditure for these institutions are appropriately recorded within the statement of accounts.	Within the schools population there were two schools identified where the transactions journaled in at year-end included employee expenses. Testing of Council employee expenses showed that these costs had already been included within the payroll costs and therefore were being double counted. This required a £6.963m adjustment to the CIES in 2020-21. Further review considered whether a similar error had occurred in 2019-20 and testing confirmed that there had also been a duplication in 2019-20. This has led to a further adjustment and has required a prior period adjustment to be included in the updated statement of accounts.	Employee benefit expenditure has been adjusted to reflect the double counting of transactions in the year. A further material adjustment has been made to the 2019-20 balance to recognise the incorrect treatment in the prior year leading to a prior period adjustment. The council need to review processes for identifying and reconciling school payroll transactions to other sources of information to avoid future duplications. A recommendation has been raised in Appendix A.
Cash and Cash Equivalents The definition of cash within the statement of accounts has been amended and is defined as any investments that are maturing within 3 days of the year end. This is a change from the previous policy of 3 months and has required a restatement of the prior year accounts	The change in policy has been clearly demonstrated within the accounting policies and is considered to be appropriate in line with the requirements of the Code. We tested the balance to ensure the new policy had been correctly applied and identified that the Council had misclassified £12m of short term investments as cash and cash equivalents. This has necessitated a material adjustment between the two balances although the net impact on the balance sheet is nil	The Council have amended an accounting policy and have not applied it appropriately in year leading to a material adjustment. Management have also failed to consider the impact on prior year balances and have subsequently made a material adjustment to the closing 2019-20 balance. Management need to ensure that where policy changes are made a full review of comparator figures is undertaken and any adjustments are appropriately reflected. A recommendation has been raised in Appendix A

2. Financial Statements – new issues

This section provides commentary on new issues which were identified during the course of the audit

Issue	Commentary	Auditor view
Derecognition of assets When an asset is disposed the Council need to ensure that the FAR is updated to correctly derecognise the asset.	As part of testing we undertake a reconciliation of the FAR to supporting documentation. This exercise identified that Thatcham C of E Primary School is not owned by the Council and is still recorded in the FAR. This has necessitated an adjustment to the PPE balances in the balance sheet	As part of the year end processes the Council undertake a review of the Fixed Asset Register to identify any assets that are incorrectly included. The issues identified show that Management need to further embed this process into year end close. A recommendation has been raised in Appendix A
Creditors Correct disclosure creditor balances shows the Council's liabilities and it is therefore important that this is accurately stated	Testing has been undertaken to ensure that creditors are appropriately stated. This has identified the following issues: - Two issues were identified in relation to accruals whereby one accrual related to a service that did not go ahead and one related to 2021-22 expense that was not reversed - A payment in advance has been recorded as a debtor but is not a prepayment as no cash payments have been made at year end. This account has been set up to reverse the over-accrual of creditor items which relate to 2021-22	Year end estimates are considered an area of risk and are subject to consideration as part of the audit process. The Council need to review processes for identifying creditors and accruals and ensuring that these are accurate. The Council's current process of review has not identified all issues and therefore further reviews should be undertaken at an appropriate level to mitigate future errors. A recommendation has been raised in Appendix A
Capital adjustment account The capital adjustment account records those costs related to timing differences arising from the consumption of non-current assets and the financing of purchases. It is credited with amounts set aside by the Council as finance for the costs of acquisition, construction and subsequent costs	Testing of entries in the accounts which also impact the capital adjustment account has identified the following: - Further inspection of property schedule to gain additional assurance over the ownership of the Council over its asset identified a land property not owned by the Council (owned by Highways Agency) that is still reflected on the Fixed Asset Register and accounts of the Council. - Our disposal testing identified one asset disposed in 2018 but was only removed from FAR during the year.	As part of the year end processes the Council undertake a review of the Fixed Asset Register to identify any assets that are incorrectly included. The issues identified show that Management need to further embed this process into year end close. A recommendation has been raised in Appendix A

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £330.004m	Other land and buildings comprises £330.004m 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. The Authority has engaged Wilks Head and Eve LLP to complete the valuation of properties as at 31 March 2021 £58,879,000 of the assets were revalued during 2020-21. The valuation of properties valued by the valuer has resulted in a net increase of £7,378,000. 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.	- 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 - Testing identified that one asset had been revalued in year and had been recorded under a new asset number within the FAR. However the Council failed to remove the previous asset number leading to a duplication of the value within the FAR - One asset was identified that was included on the FAR that the Council no longer owned - The valuer was required to update the valuation of one asset to reflect the completion of an extension which was not originally included Our work in this area is ongoing and we discuss any further findings with management and report to those charged with governance where relevant.	

Assessment

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

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Properties – £66.315m	The Council has investments in a number of investment properties that are valued on the balance sheet as at 31 March 2021 at £66.315m. 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 £255k in 2020-21 due to net losses from fair value adjustments.	- 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	

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Net pension liability – £426.738m

The Council's total net pension liability at 31 March 2021 is £426.738 million (PY £293.143 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 £159.665m million net actuarial loss during 2020-21.

- 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

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.00%	1.95% – 2.05%	●
Pension increase rate	2.85%	2.80% - 2.85%	●
Salary growth	3.85%	3.80% - 3.90%	●
Life expectancy – Males currently aged 45 / 65	22.5 / 21.2	21.9 – 24.4 / 20.5 – 23.1	●
Life expectancy – Females currently aged 45 / 65	25.4 / 23.9	24.8 – 26.4 / 23.3 – 25.0	●

- 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.
- Work completed by the Pension Fund auditor, and communicated to GT through the IAS19 assurance letter, identified that assets had been reduced by £48.1m. West Berkshire's share of this is 13% which is £6.3m. We are continuing to discuss with management how this will be reflected in the statements

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £76.400m	The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income here is a requirement to assess whether income received has conditions attached and should therefore be considered grant income or another classification of income. This will allow the Council to ensure the correction presentation of revenue in line with the Code	• We have reviewed management's processes for identifying whether they are agent or principal for grant income and ensured that the appropriate disclosures have been made in the statement of accounts • We have agreed a sample of grant income to third party documentation including the grant paying body to ensure that revenue has been correctly disclosed • We have reviewed supporting documentation to identify any conditions an ensure that the Council has complied with these • We have reviewed year end accruals to understand how these have been calculated and that these are appropriately accounted for. • Testing identified that there are a number of grants that the Council has assessed as principal should have been accounted for as agent. This means that income and expenditure within the CIES have been overstated by £40.7m which has a net nil impact on the general fund. • S106 developer contributions have been classified as creditors rather than Grants received in Advance in line with the requirements of the code. There is a further issue with allocating the contributions between short term and long term and the Council are unable to complete this process with the information available.	

Assessment

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

2. Financial Statements - 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
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	- 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. - We requested from management permission to send confirmation requests to the Pension Fund auditor. This permission was granted and the requests were sent.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. We have identified the following disclosure issues within the statement of accounts that are being reviewed and updated by the Council: - Review of related parties identified one body that did not meet the definition of IAS24 and therefore should not be included. - Heritage assets have not been separately disclosed on the face of the balance sheet - The Council has disclosed a PPA for an amendment of £1.8m This is not material and in line with the Code it is considered that there is no requirement for this disclosure. The Council have reviewed the treatment and consider that this needs to be retained for transparency purposes
Audit evidence and explanations/ significant difficulties	- 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.

2. Financial Statements - other communication requirements



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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: - the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities - for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: - the nature of the Council and the environment in which it operates - the Council’s financial reporting framework - the Council’s system of internal control for identifying events or conditions relevant to going concern - management’s going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: - a material uncertainty related to going concern has not been identified - management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	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. 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.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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 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.
Specified procedures for Whole of Government Accounts	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. It is noted that the NAO has yet to provide guidance for the completion of this work
Certification of the closure of the audit	We intend to delay the certification and the closure of the 2020-21 audit of West Berkshire Council in the audit report due to ongoing VFM work and any requirement for completion of WGA work.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay will be shared with the S151 Officer and the Chair of the Governance and Ethics Committee. We expect to issue our Auditor's Annual Report by 31 July 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks at the planning stage but noted some areas of focus. Our work on this is underway.

4. 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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

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.

Service	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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 13 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 2021/22 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
	Grant income, and particularly that in relation to Covid, has been assessed by the Council incorrectly as principal. The Council have no liability for the majority of this grant income and therefore should recognize this as an agent. This has led to a £40m adjustment to income and expenditure.	The Council should ensure that all analysis of grant income and other revenue is undertaken appropriately and that it is recognised in line with the requirement of the code Management response The accounting adjustment described had a net £nil impact upon the Council's 2020/21 Comprehensive Income and Expenditure Statement, in that income and expenditure totals were both reduced by the same sum of £40m. The Council received extensive Covid-19 grant funding sums in 2020/21 during unprecedented operational circumstances. Management accept the finding and the Council will review for accuracy if there are any such agent/principal amounts within the preparation of the 2021/22 Statement of Accounts.
	The Council has double counted school employee expenses for two schools through the journaling in of transactions. Testing identified that these costs were already included in the payroll costs leading to an adjustment in 2021-22 and a prior period adjustment and there is a risk that the Council will overstate costs within the CIES.	A detailed reconciliation of year end transactions should be undertaken to ensure that all transactions are appropriately recorded and that there is no duplication of disclosures. Management response The 2020/21 Statement of Accounts reflects the current year and prior year impacts relating to this specific journal entry. Management will ensure that work is undertaken which demonstrates that such accounting transactions have been treated appropriately during the 2021/22 financial year
	Testing of the Fixed Asset Register (FAR) to ensure that it reconciles to supporting documentation identified one asset that the Council no longer own and should therefore have been derecognized. There is a risk over overstating balances within the financial statements and incurring costs that are not applicable to the Council	The Council should undertake a detailed review of the Fixed Asset Register at year end to ensure that all assets are accurately recorded and that they are still owned by the organisation Management response This finding is acknowledged. Review work is ongoing within Finance to ensure that the FAR remains complete and accurate in terms of supporting detail
	Testing of revaluations in year identified one asset which had been assigned a new asset number within the FAR and for which the previous asset records had not been removed leading to a duplicate entry for the asset. There There is a risk over overstating balances within the financial statements and incurring costs that are not applicable to the Council UK LLP.	The Council should undertake a detailed review of the Fixed Asset Register at year end to ensure that all assets are accurately recorded and that there are no erroneous entries Management response Attention is drawn to the response provided immediately above.
	The Council have componentised an asset and have reallocated the asset building cost across the	Management should ensure that any changes in accounting policies

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	The Council has changed there recognition policy for recognition of cash and cash equivalents from three months to three days. The disclosure of short term investments in the statement of accounts has not been adjusted for this and is therefore understated by £12m. This has also required a prior period adjustment to ensure that comparatives are consistent with updated policies	Management should ensure that any changes in accounting policies are properly and accurately reflected in the statements Management response The Council has updated the wording within the associated accounting policy. The 2020/21 Statement of Accounts also reflects the current year and prior year effects of processing this change
	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 The Council has implemented projects with a view to recalibrating the General Ledger framework and to improve reporting processes. Audit issues identified will be incorporated into the project scope.
	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 has implemented projects with a view to recalibrating the General Ledger framework and to improve reporting processes. Audit issues identified will be incorporated into the project scope.
	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	The Council should ensure the consistency of reporting between the statement of accounts and the figures reported to members Management response This recommendation is acknowledged. A supporting paper will be collated that bridges the Expenditure and Funding Analysis content (presented in the Statement of Accounts) and management's Outturn Report
	Within in our sample number of items were selected for testing that 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 The finding is accepted. The Council understands the importance of third party evidence as adequate backing for specific financial transactions

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	Creditor testing identified one accrual that related to a service that did not occur and on that related to a 2021-22 expense that had not been appropriately reversed. Further testing also identified a payment in advance recorded as a debtor where no cash payments have been made. This account had been set up to reverse the over-accrual of creditor items. There is a risk that creditor balances will not be accurately disclosed	Management should review year end accruals and creditor balances to ensure that these have been recorded accurately and allocated to the correct accounting period Management response All such balances will be reviewed for completeness and accuracy within the context of forthcoming financial year-end closedowns
	The Council has made an adjustment to S106 payments to reclassify them from creditors to grants received in advance in line with the code. However, management is unable to identify which of these relate to short term liabilities and which are long term and therefore in year analysis is not possible.	Management should ensure processes are in place to allow the monitoring of S106 contributions and when these will be spent in order to ensure analysis within the statement of accounts is accurate. Management response The receipt and application of S106 funding amounts is managed on an ongoing basis. In respect of the 2021/22 financial year-end, management will ensure that a similar exercise (to 2020/21) is undertaken which denotes amounts falling due within one year and amounts falling due within greater than one year
	The valuation of one asset required updating to allow for the completion of additional buildings that were operational before the year end. There is a risk that full information is not being provided to the valuer and, therefore, valuations within the statement of accounts are incorrect	Management need to ensure that all information is provided to the valuer to allow a full and accurate valuation of assets at the year end Management response In order to ensure that the year-end financial statements disclose accurate asset valuations, reliance is placed on the work of third party valuation specialists. The Finance Section is supported by the Council's in-house Property Team in ensuring that the valuation firms receive complete and accurate supporting data on which to base their asset valuation conclusions at each financial year-end

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of West Berkshire Council's 2019/20 financial statements, which resulted in 11 recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note 4 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	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	This was an adjustment to the prior year accounts which have been processed. It is considered that this issue has been appropriately addressed
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 2020-21 has identified a number of transactions where the Council have been unable to provide supporting documentation to support the disclosures. We have again raised this as a recommendation for 2020-21
x	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	This is an ongoing issue from the setup of the accounts structure within the general ledger. Management continue to investigate options for restructuring which will provide a more suitable reporting platform that will allow provision of accurate listings for the purpose of audit
✓	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.	No such issues have been identified as part of the 2020-21 audit

Assessment

✓ Action completed

x Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Testing of PPE disposals identified that there were a number of disposals that related to REFCUS which had been previously incorrectly classified. The disposal was to correct this classification	Testing in 2020-21 has identified further issues relating to PPE disposals. However, these do not relate to REFCUS and therefore we are satisfied that this issue has been appropriately addressed.
X	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	This issue remains in 2020-21 and has been discussed with management. It is noted that management undertake a constant review of accounts presentation and will continue to consider this disclosure for the 2021-22 accounts. A recommendation has again been raised in 2020-21
✓	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.	As noted in a previous issue the Council are currently providing reports on an ad-hoc basis and that this is still causing issues in providing full transaction listings for the purpose of audit. However, testing in 2020-21 has not identified any specific issues with REFCUS and this issue is considered to have been addressed
✓	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	No such issues have been identified in 2020-21
✓	A review of the bank reconciliation identified approximately £45k in unrepresented cheques from 2018 that remained in the workings	No such issues have been identified in 2020-21
✓	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	No such issues have been identified in 2020-21
X	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.	Testing in 2020-21 has identified a number of transactions where the Council have been unable to provide supporting documentation to support the disclosures. We have again raised this as a recommendation for 2020-21

Assessment

✓ Action completed

X Not yet addressed

C. 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
S106 Developer contributions are accounted for under section 2.3 of the code as Government and Non-government grants. This should be classified as Grant Receipts in advance rather than creditors		Short-term creditors 7,421 Grants received in advance-capital (7,421)	
Several grants received as income have been re-assessed as agent rather than principal. Therefore, the income and expenditure has been incorrectly reflected in the CIES which is not in line with the code or IFRS15. This will be removed and the creditor recorded to reflect the balance due for recovery by Central Government and/or expected to be passported to the recipient next financial year	Grant Income - 40,678 Gross Expenditure – Other services expenses - (40,678)	Short-term creditors - (6,282) Grants received in advance – revenue - 6,282	
Testing of employee benefit identified that some school's payroll had been recorded twice.	Employee Benefit Expenditure – (6,963) Miscellaneous income – 6.963		
Testing of short term investments identified that £12m had been incorrectly classified as cash equivalent. These investments do not meet the criteria for cash equivalents and should be reclassified.	Cash equivalent – (12,000) Short-term investment 12,000		
The Council has incorrectly classified a loan as capital grant income. The loan is due to be repaid in December 2022 and no liability has been disclosed in the statements	Grant Income - 1,360	Capital adjustment account – 440 Loan liability (current) – (1,800)	1,360
Local capital grant funding has been recorded as grant income and should be classified as Grant receipt in advance to reflect that it relates to 2021-22	Grant income – 718	Grant receipts in advance – capital (718)	718
Overall impact	£2,078	£(2,078)	£2,078

C. 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	Auditor recommendations	Adjusted?
The minimum lease instalment payable for later than one year and not later than five years in 2019-20 has been erroneously discounted and should be presented at gross under paragraph 4.2.4.20 of the Code. A restatement has been made to Note 36.1 to reflect the prior period disclosure adjustment as follows: 1 – 5 years – amended from £11,483k to £12,598k - Later than 5 years – amended from £21,752k to £38,397k	The Council should ensure that disclosure of future liabilities is appropriately analysed between the correct categories	✓
Table 2 on Note 36.2 – Authority as Lessees – Operating leases should show only the lease payments expensed during the period in accordance with paragraph 4.2.4.2 Item 8 of the CIPFA Code Minimum lease payments – amended from £4,360k to £1,589k	Management should ensure that only those transactions in relation to financial year being reviewed are disclosed in the statement of accounts	✓
Note 31 External Audit Costs – A disclosure note is required relating to additional fees charged in 2020-21 for the 2019-20 audit for reconciliation purposes	Management should ensure that all audit costs are appropriately disclosed in the statement of accounts	✓
Review of grant income identified that Housing Benefit Subsidy had been recorded as Fees Charges & Other Service Income rather than Grant Income. This will be reclassified within Note 13 from Fees, Charges & Other Services to Grant Income amounting to £26,621k. The related grant income has also been updated to reflect the change	Management should ensure that all income is disclosed appropriately within the statement of accounts and in line with the requirement of the Code	✓
Testing of Financial Instruments identified that collection fund debtors have been included as financial assets when they should be excluded as they is a statutory right rather than contractual right to receive cash. Adjustments on S106 developer's contributions, cash and cash equivalents & investments have also been adjusted and therefore note 18 has been amended as follows: - Note 18.1 Current debtor - £28,486k to £19,331k - Note 18.1 Current creditors - £34,958k to £27,537k - Note 18.3 Fixed Assets held at amortised cost – cash and cash equivalents - £33,080k to £21,080k - Note 18.3 Fixed Assets held at amortised cost – short term investments - £2,000k to £12,000k	Management should ensure that financial instruments are appropriately stated in line with the requirement of the Code.	✓
The 2019-20 Improved Better Care Fund Grants Received in Advance amounting to £213k recorded as other non-covid grants should be classified as Improved Better Care Fund line item for consistency of presentation of disclosure	The Council should ensure that presentation within the statement of accounts is consistent with prior years to allow full analysis	✓

C. 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	Auditor recommendations	Adjusted?
Note 13 grant income current year figures have been adjusted to reconcile to Note 13.1 Grant Income as appropriate and Other Income has been included within Fees, Charges and Other income. However the 2019-20 comparatives have not been restated to be consistent with the updated presentation. The amendments to prior year balances is: - Fees, Charges & Other Income – amended from £215,792k to £128,304k - Grant Income – amended from £32,053k to £155,589k - Other Income – amended from £4,767k to £0	Where management change the presentation in the current year they should review prior year disclosures to ensure these are consistent with the updated figures	✓
A number of presentational disclosures are required to the Property, Plant and Equipment (PPE) Note 14 to ensure this agrees to the Fixed Asset Register: - Revaluation decrease recognised in the revaluation reserve – from £(42k) to £(1,048k) - Revaluation decrease recognised in the surplus/deficit on provision of service – from £(2,594k) to £(1,588k) - Depreciation written out to the revaluation reserves – from £1,722k to £1,006k - Impairment losses/(reversals) recognised in the surplus/deficit on provisions of services – from £(548k) to £168k	Management should ensure that transactions required to disclose PPE balances are accurate and that adjustments through revaluation reserves accurately reflect the transactions in year.	✓
There has been a change in the management reporting structure in 2020-21 as Capital Financing and Risk Management have been reallocated to the appropriate Directorates in 2020-21. The CIES, FA and segmental income shows the 2019-20 comparatives under the old structures. Code guidance Notes para 135 confirms that comparative figures should be restated to match the new format. This should include prior year figures being noted as 'restated' and an explanatory note as to why the amendment has been made.	Where management change the presentation in the current year they should review prior year disclosures to ensure these are consistent with the updated figures	✓
PFI assets included within the PPE balance in note 14 should be separately disclosed in line with the Code	Management should ensure accounts disclosures are in line with the requirements of the Code Management Comment The Council will review the embedded disclosures during the 2021/22 financial year-end closedown with appropriate content itemised in the Statement of Accounts pertaining to material accounting items	x
Our audit identified a number of presentational and disclosure updates that do not warrant individual reporting. Management updated the FS for areas identified in order to improve the overall presentation and readability, ensure compliance with the Code and ensure that disclosures matched the financial records of the Council	Management should review all disclosures for accuracy	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 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	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Our reconciliation of the Fixed Asset Register and Valuation report identified that Thatcham Park C of E Primary School Building is not owned by the Council but is still recorded in the books as part of Other Land & Buildings and should be removed from FAR.	Derecognition – Disposals – 810	Accumulated Depreciation OLB – 28 OLB – (838)	810	Not material
Our reconciliation of the Fixed Asset Register and Valuation report identified that one asset revalued had been recorded to a new asset ID and the old asset ID had not been removed, thus, duplicating the value recorded.	Revaluation loss – 20	Revaluation Gain – 330 Accumulated depreciation – 4 OLB – (350) Depreciation written out to revaluation reserve – (4)	20	Not material
Two issues identified on the over accrual of creditor - 1 relates to service that did not go ahead and yet was accrued and 1 relates to 21/22 expense and was not reversed accordingly.	Expense – (583)	Creditors – 583	(583)	Not material
Payment in advance account recorded as debtor is not actually a prepayments as there are no cash payments made as at YE. This account was set-up to reverse the over accrual of creditor items which relates to the next financial year.		Creditors – 567 Debtors – (567)		Not material
Testing carried out on schools imprest reconciliation identified that there are £313k reconciling items that the Council cannot evidence. These largely relates to unrecorded receipts, hence, bank statement balance is greater than the cash currently recorded in the banks.	Fees, Charges & Other Income (313)	Cash and Cash Equivalents – 313	(313)	Not material
Further inspection of property schedule to gain additional assurance over the ownership of the Council over its asset identified a land property not owned by the Council (owned by Highways Agency) that is still reflected on the Fixed Asset Register and accounts of the Council.	Operational Land – (701)	Capital Adjustment Account – 701	(701)	Not material

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Impact of unadjusted misstatements

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Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
The Valuer has updated their valuation of Willink School to reflect the completed extension in one of the blocks and to update the GIA based on the floor plan provided by the Council.		Revaluation reserve – 684 Property, Plant & Equipment – (684)		Not material
Our disposal testing identified one asset disposed in 2018 but was only removed from FAR during the year.	Loss on disposal – (1,290)	Capital adjustment Account – 1,290	(1,290)	Not material
Our detailed valuation testing identified that a couple of asset had incorrectly charged revaluation decreases to SDPS when they should have been charged against revaluation reserve.	Gross expenditure (Revaluation decrease recognised in SDPS) – (1,845)	Revaluation Reserve – 1,845	(1,845)	Not material
Prior to the audit management identified that one revalued asset had been matched against wrong asset ID. As a result Other Land & Buildings (OLB) was understated and a revaluation loss had been recorded when it should have been revaluation gain.	Revaluation Loss SDPS – (186)	Accumulated depreciation – (66) OLB – 2,615 Depreciation written out Revaluation reserve – 66 Revaluation Gain Revaluation Reserve – (2,429)	(186)	Not material
Overall impact	£(3,387)	£3,387	£(3,387)	

Impact of prior year unadjusted misstatements

No unadjusted misstatement were identified in the 2019-20 statement of accounts

