

Informing the audit risk assessment for West Berkshire Council 2021/22

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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 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 your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between West Berkshire Council's external auditors and West Berkshire's Governance and Ethic Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Governance and Ethics Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Governance and Ethics Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Governance and Ethics Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Governance and Ethics Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Governance and Ethics Committee and supports the Governance and Ethics Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from West Berkshire Council's management. The Governance and Ethics Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	As was the case for 2020/21, the key issue impacting on the Council and so the financial statements continues to be the Covid pandemic
2. Have you considered the appropriateness of the accounting policies adopted by West Berkshire Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Accounting Policy report for 21/22 was reported to 25 April 2022 Governance and Ethics Committee. Only significant change was to update the Council's policy for cash and cash equivalent financial assets. The report also highlighted forthcoming accounting requirements, issued not yet adopted.
3. Is there any use of financial instruments, including derivatives? If so, please explain	Not applicable
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	Residual Covid-19 distribution of funding – much less core Covid-19 funding for the Council than in the prior financial year, but still a range of grants to distribute

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	Not applicable
6. Are you aware of any guarantee contracts? If so, please provide further details	None identified
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No material contingent assets or contingent liabilities have been disclosed in the draft 21/22 Statement of Accounts
8. Other than in house solicitors, can you provide details of those solicitors utilised by West Berkshire Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	See next slide, inserted by WBC

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	Date	Solicitors	Matter type
1	Various	Bevan Brittan	Debt advice
2	04/06/2021	Bevan Brittan	Contracts / procurement
3	07/07/2021	Bevan Brittan	ISA and Privacy Notice
4	09/08/2021	Bevan Brittan	Data Sharing Agreement Review
5	21/09/2021	Bevan Brittan	Advice on Social Value Policy
6	11/11/2021	Bevan Brittan	Learning Platform and Phishing simulation software purchase
7	02/12/2021	Bevan Brittan	Supporting Families Legal Gateways
8		Bevan Brittan	
9	13/07/2021	Blandy & Blandy Sols	Four Houses Corner
10	Various	Liz Howlett - EJHLegal	Review of Constitution
11	Various	Wilkin Chapman	Employment
12	26/08/2021	Sharpe Pritchard	Application for an injunction
13	15/12/2021	Womble Bond Dickinson	Operating and baseline agreements

General Enquiries of Management

Question	Management response
9. Have any of the West Berkshire Council service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	None known
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>The Council used Arlingclose as its Treasury Management Advisor in 2021/22</p> <p>The Council instructed Counsel listed below in the following matters:</p> <p>Social Care - Adult & Children - Jonathan Auburn, Chris Jacobs</p> <p>Regulatory & Prosecution - Malcolm Gibney, Emily Lanham, Martha Smith-Higgins</p> <p>Education - Jack Anderson, Leon Glenister, Alex Line, Jennifer Thelen</p> <p>Housing - Emma Godfrey, Andrew Lane, Sarah Salmon</p> <p>Planning & Highways - Noemi Byrd, Matthew Fraser, Emmaline Lambert, Jacqueline Lean</p> <p>Regulatory & Local Government - Matt Lewin</p> <p>Employment - Talia Barsam</p> <p>Property - David Nicholls, Paul Wilmshurst</p>
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Note 39.2 considers nature and extent of risk re: financial instruments and includes an estimate of expected credit losses.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Governance and Ethics Committee and management. Management, with the oversight of the Governance and Ethics Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Governance and Ethics Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As West Berkshire Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Governance and Ethics Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Governance and Ethics Committee oversees the above processes. We are also required to make inquiries of both management and the Governance and Ethics Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from West Berkshire Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has West Berkshire Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Finance has incorporated an assessment of risk of material misstatement due to fraud within the annual accounts preparation process. Key considerations are current year instances of fraud or potential fraud (none, as per Q3 to this section, below) and in relation to any historic knowledge of fraudulent activity in prior financial periods.</p> <p>The Council's Risk Register is updated on an ongoing basis and is presented to Committee. Note, the risk assessment has been discussed in further detail in the Council's response to the separate Audit Planning request "Information and Communication: Risk assessment process"</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>In preparing the Annual Internal Audit Plan the Audit Manager re-assesses the level of risk of all areas included in the 'audit universe', those areas with types of transactions at high risk of fraud and corruption are identified as such in the Audit Plan. Key fraud risk areas include:</p> <ul style="list-style-type: none"> - The complexity of the organisational/ownership structures – not overly complex for WBC (as a local government entity); - The presence of subsidiary, joint venture and minority interests within a group reporting structure – not applicable for the Council; - Unnecessarily complex accounting policies and/or frequent changes to the accounting policies employed (not the case for WBC); - The pursuit of (and transacting of) high risk investments. Not applicable for the Council, and furthermore the Treasury Management Group is sighted on and reviews the Council's investment portfolio on a continuing basis. - A further category for potential fraud is in respect of business grants that the Council has processed. Regular reporting and audit work has been required throughout to the sponsoring Government departments, as well as pre and post award counter fraud checks.
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within West Berkshire Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>No new cases of potential fraud requiring investigation have been reported to Internal Audit since April 2020. Where Internal Audit are notified of such cases the Audit Manager would brief both the S151 and Monitoring Officer of the allegations and planned action to investigate.</p> <p>Internal Update reports to Governance & Ethics Committee refer to ongoing investigation work, more detailed information of outcomes is provided to Committee as verbal updates, part II where appropriate. Year end Internal Audit report has a section on fraud cases investigated, outcomes and cost of the investigations.</p>

Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	This is raised through Internal Audit reporting through the Governance and Ethics Committee via regular reporting from the Internal Audit Manager.
5. Have you identified any specific fraud risks? If so, please provide details Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within West Berkshire Council where fraud is more likely to occur?	As part of preparing the Annual Internal Audit Plan, the Audit Manager re-assesses the level of risk of all areas included in the 'audit universe', those areas at high risk of fraud and corruption are identified as such in the Audit Plan. From this information a Counter-Fraud Work Plan is prepared which lifts those key risk areas from the Audit Plan that have been assessed as requiring audit coverage in the financial year.
6. What processes do West Berkshire Council have in place to identify and respond to risks of fraud?	<p>As per the previous response, Internal Audit carries out pro-active anti-fraud work each year, identified as part of compiling the Audit Plan. The Council has associated covering documents:</p> <ul style="list-style-type: none"> - Anti-Fraud and Corruption Policy and Procedure; - Anti-Money Laundering Policy and Procedure; - Bribery Act Policy and Procedure. <p>The above three documents were revised and approved by the Governance and Ethics Committee, November 2019. The documents are published on the Intranet and external webpages. All three policy documents have recently been reviewed/ revised and are going through the governance route for approval.</p> <ul style="list-style-type: none"> - Whistleblowing Policy and Procedure - Disciplinary Policy and Procedure <p>The above two documents are owned by Human Resources, they provide advice to managers/staff on action to be taken where misconduct is identified, this also covers potential fraud cases.</p> <p>All of the above documents refer to the Council's policy/approach to dealing with fraud, roles and responsibilities and how to report and respond to potential fraudulent incidents.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for West Berkshire Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>An opinion is provided in the Audit Manager's Annual Assurance Report.</p> <p>Internal Audit undertake a range of risk-based audits each year to confirm or otherwise the adequacy of the internal controls across the Council's functions and activities in relation to governance and risk management arrangements. Individual assignments would cover the internal controls around separation of duties where relevant to the audit scoping/associated risks. Where controls are not in place/are deemed not effective to manage the risk of fraud this would be highlighted as a risk in the audit report and a recommendation made for remedial action. If the control weakness is deemed a significant issue this would impact on the audit report overall opinion and for weak/very weak opinions, the recommendations are followed up so we can report on progress/flag up any issues of concern not addressed.</p> <p>A review of the system of internal control is undertaken annually as part of preparing the Annual Governance Statement.</p> <p>Other controls – these are varied and numerous depending on the function, from an Internal Audit point of view these will be identified/assessed in our individual audit assignments.</p> <p>No obvious gaps identified as part of previous Internal Audit work. The nature of the Council's business activity is not target driven or reward incentivised and therefore the pressure to achieve financial targets/benchmarks is not deemed to be excessive.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Any such assessment by Internal Audit would be undertaken as part of the risk assessment of any relevant audit assignment.</p>

Fraud risk assessment

Question	Management response
<p>9. How does West Berkshire Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>With the increased risk of fraud due to Covid-19, in April 2020, September 2020 and June 2021 Internal Audit issued all-user emails alerting employees to some work-related fraud scenarios and how to deal with them. The emails also mentioned if staff had any concerns regarding possible fraud or scams, to discuss this with their manager/Internal Audit.</p> <p>The Whistleblowing Policy/Procedure and the Anti-Fraud Policy and Procedures encourage staff to report concerns of fraud. The circumstances in which something should be reported/the type of frauds that may occur are referred to as guidance.</p> <p>Formal fraud training was undertaken during 2020/21 covering general fraud awareness, anti-money laundering, whistleblowing and anti-bribery and corruption. As a starting point the sessions were aimed at senior managers/teams whereby due to the nature of work there is more likelihood they could come across such issues. For 2021/22 general fraud awareness and whistleblowing training sessions were provided to both staff and members.</p> <p>Potential whistleblowing issue raised with Internal Audit in September 2020, but investigation did not confirm the significance of the reported issue.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Any such assessment by Internal Audit would be undertaken as part of the risk assessment of each audit assignment.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No specific instances noted. The detailed year end working paper that supports the Related Parties note in the Statement of Accounts itemises the factors that determine transactional inclusion in the year (and the associated Member/employee relationships).</p> <p>All queries and discrepancies are resolved. Senior management within the Council also review the final note in the Statement of Accounts for reasonableness and any queries arising are resolved.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Governance and Ethics Committee?</p> <p>How does the Governance and Ethics Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>As per Question 3 [Awareness of any instances of actual, suspected or alleged fraud], Internal Audit Update reports to Governance and Ethics Committee refer to ongoing investigation work, more detailed information of outcomes is provided to Committee as verbal updates, part II where appropriate. Year end Internal Audit report has a section on fraud cases investigated, and cost of the investigations.</p> <p>Governance and Ethics Committee are also provided with quarterly updates of progress/outcomes of the Counter Fraud Work Plan prepared and monitored by Internal Audit. There have been no Internal Audit investigations during 2021/22 so there was no need to report on progress to Governance and Ethics Committee.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>As per the Council's Whistleblowing Policy, and such concerns should be reported to HR. If the nature of the whistleblowing issue is fraud related, this would be passed to the Internal Audit team to investigate. The Audit Manager is not aware of any such cases being reported under the Whistleblowing Policy during 2021/22.</p> <p>Some complaints received through the Council's Corporate Complaints Policy/Procedure can be of a serious nature, and where this is the case Legal Services are notified. Legal Services notify the Audit Manager where there is a 'complaint' making reference to inappropriate practices/potential fraud. These are included in the Audit Manager's log of all potential/actual fraud issues, which records how they are being dealt with, and the outcome.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Governance and Ethics Committee, is responsible for ensuring that West Berkshire Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Governance and Ethics Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does West Berkshire Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The Monitoring Officer is a member of Corporate Board which considers all reports going to Council or Executive Committee. All decision making reports have a section which considers legal implications, which should record a member of Legal Services who has been consulted in respect of the same.</p> <p>Training is provided by Legal Services to both members and officers to ensure that relevant rules and legislation are complied with at all times.</p> <p>Legal Services has a risk register detailing higher risk claims, and monitors the number of claims for judicial review which are brought which would highlight allegations of non-compliance with laws and regulations.</p> <p>We are not aware of any changes to the regulatory environment which would have a significant impact on the Council's financial statements.</p>
<p>2. How is the Governance and Ethics Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Annual Governance Statement incorporates details of the control framework to ensure effective decision making and no issues have been identified there. Further, the Monitoring Officer has a statutory duty to report such matters to Council and no such reports have been made.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>There are none known</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>None identified, this consistent with the nil disclosures for contingent assets and/or contingent liabilities in the draft 2021/22 Statement of Accounts.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does West Berkshire Council have in place to identify, evaluate and account for litigation or claims?	The Council employs a team of specialist lawyers who will advise in respect of any claims received. External advice will be sought when appropriate. Certain claims will be referred to our insurers.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	None known

Related Parties

Matters in relation to Related Parties

West Berkshire Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by West Berkshire Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in West Berkshire's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and West Berkshire Council • whether West Berkshire Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>There are no new related parties disclosed in the note (note 34) to the 2021/22 Statement of Accounts. The only change in related parties listed between 2020/21 and 2021/22 is in respect of Parkwood Leisure.</p> <p>Parkwood Leisure hold the contract to operate WBC leisure centres. The 2020/21 disclosure for was made by Councillor Jeff Beck who was, in 2020/21, then a member of Parkwood's management committee. There was a nil return for 2021/22.</p>
<p>2. What controls does West Berkshire Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Annual related party declaration returns are issued to all Council Senior Officers and Members, and all respondents are asked to refer to tailored Finance guidance which defines the applicable transaction types to be disclosed. Any discrepancies within the forms returned are followed-up by Finance. The Strategy and Governance Team retain a separate ongoing record of all such related party transactions and relationships.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>All Senior Officers and Members are directed to transact in accordance with the Council's established Procurement and Tendering Policies.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Per the Council's Constitution there are emergency powers included and reporting requirements set out; the Council used this very little during 2021/22 as the impact of the pandemic moved from response to recovery.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by West Berkshire Council will no longer continue?</p>	<p>This would be set out through government direction if this was to take place i.e. through a best value inspection, OfSTED inspection, etc. The latest OfSTED inspection was 'good' for Children's Services. There is a care home run by the Council which is assessed as 'RI' but this is not material to an overall statutory service being removed.</p>
<p>2. Are management aware of any factors which may mean for West Berkshire Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>None known.</p>
<p>3. With regard to the statutory services currently provided by West Berkshire Council does West Berkshire Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for West Berkshire Council to cease to exist?</p>	<p>Yes – expect for these to continue. Indeed, by the end of 2021/22, new services were required to be provided e.g. the Homes for Ukraine scheme for 2022/23.</p>
<p>4. Are management satisfied that the financial reporting framework permits West Berkshire Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes – see separate Going Concern paper.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The primary items include the year end valuation of land and property assets (including investment properties), valuation of the Council's year end defined benefit pension scheme liability and the appeals provision supporting Business Rates.
2. How does the Councils risk management process identify and address risks relating to accounting estimates?	The Council reviews the risk register on a quarterly basis through to Corporate Board and this is considered in respect of the accounting estimates where financial risk is raised
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The Council engages a cross section of dedicated advisors (including property valuation experts and actuarial specialists) to ensure that the methods and assessments underpinning such accounting estimates remain complete and up to date
4. How do management review the outcomes of previous accounting estimates?	The assumptions used within prior years are considered afresh for a new financial year and reviewed for accuracy and reasonableness. As outlined above, the advice and work of specialists helps to inform the Council's decision making processes
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	The Council has reduced its Business Rates Appeals provision during 2021/22 by £1.046m. Historically this has been based upon the application of the national average percentage of 4.7% of the Net Collectable.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>In determining relevant accounting estimates, management consider a number of factors including past performance, current trends and likely future outcomes supported by sensitivity analyses as appropriate.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The degree of estimation uncertainty (and associated higher risk of material misstatement) is a critical consideration within the application of accounting estimates. As examples, higher estimation uncertainty would prompt the Council to satisfy itself that experts (where engaged) are relying on a breadth of data (from a variety of different sources) in forming conclusions and that any technical models employed are valid and up-to-date.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>The Council has close contact with key external experts (including property valuation specialists and the actuary for the pension schemes). This ensures that there is an awareness of the key controls and review procedures established within these external parties. WBC Finance also typically issue follow-up queries once in receipt of output (including formal reports) and other technical data supplied by such experts.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The accounting estimates established are reviewed for completeness and accuracy afresh in each financial year. Associated Statement of Accounts disclosures are updated accordingly, with any material methodology revisions detailed. See Appendix A which documents the Council's detailed listing of accounting estimates.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	N/A
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	There has been no significant change in accounting estimates from recent years and for which no material audit concerns were raised
12. How is the Governance and Ethics Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The Governance and Ethics Committee receive regular reports and these include the going concern judgement as well as highlights from the financial statements. The committee also receive reports in respect of any significant changes to accounting policies and judgements.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Specialised assets are valued using the Depreciated Replacement Cost (DRC) method and non-specialised assets are valued using Existing Use Value (EUV) and/or Fair Value (FV) measurement indices	The use of tolerance parameters to determine the accounting impact of the application of a varied impairment factor to the asset base	Yes (third party valuation specialists engaged were Wilks Head & Eve LLP)	Land and property asset valuations are subject to ongoing market review with the arising effects variable across the valuation methods and assumptions employed	No
Council dwelling valuations	N/A	N/A	N/A	N/A	N/A
Investment property valuations	Investment properties are valued at fair value	The application of tolerance parameters	Yes (Avison Young as third party valuation specialists)	The Council employs valuation techniques that are appropriate in the circumstances and for which adequate supporting data is available, maximising the use of relevant observable inputs and minimising the application of unobservable inputs	No
Depreciation	In accordance with the Council's accounting policy as disclosed in the Statement of Accounts. The different asset types have been assigned varied useful economic lives	Detailed spreadsheets are maintained which support the depreciation amounts charged at an individual asset level	No	The ongoing review of depreciation charged ensures that the potential accounting impact of factors including componentisation is considered	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Complex valuation models (updated by the Council's actuary) support the Accounts disclosures for three separate pension schemes	The actuary employs sensitivity analysis (modelling the impact of pay and inflation changes, for instance)	Yes	Basis of calculation is the projected unit method with discounting used to discount future liabilities back to present values	No
Level 2 investments	Fair value hierarchy methodology applied	Commercial units has been used as the asset benchmark within this review	Avison Young (third party valuation firm)	In determining the application of Level 2, alternative fair value measurement indicators (including Levels 1 and 3) have been appraised	No
Level 3 investments	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Fair value estimates	The following assets are also accounted for at their fair values – surplus assets, intangible assets and financial instruments. No specialist models are employed	Using financial assets as an example, fair values are reviewed on an ongoing basis and any gains/losses that may arise are not recognised until the relevant instrument matures or is sold	No	Changes in the value of assets recognised at fair value are debited/credited to the Comprehensive Income and Expenditure Statement as they arise	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Not applicable in terms of the use of a model/provisions are accounted for at the best estimate at the Balance Sheet date	Management incorporate a range of differing outcomes in determining the £ amount to recognise	No	Due consideration is given to alternative estimates. Provisions reflect the likely estimate of the amount required to settle an obligation taking into account all relevant risks and uncertainties	No
Accruals	Not applicable in terms of a model. A material income stream for the Council is grants and contributions	This income is recognised on an accruals basis when there is reasonable assurance that the Council will comply with any payment condition terms and that the monies will be receipted	No	The conditions attached to such grants and contributions are reviewed and monitored in detail. Where conditions remain outstanding, the Council carries such amounts in the Balance Sheet as receipts in advance	No
Credit loss and impairment allowances	Allowances for impairment losses are calculated for assets at amortised cost, and the expected credit losses model is applied	Any material changes in loss allowances are debited/(credited) to the Comprehensive Income and Expenditure Statement	No	The 12-month expected credit losses disclosure within the Financial Instruments note in the Statement of Accounts reflects the expected credit losses for a financial asset that are projected taking account of possible events and uncertainties which may occur during the subsequent financial year	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	Not applicable (the Council holds no such leases)	Not applicable	Not applicable	Not applicable	Not applicable
PFI Liabilities	A detailed Excel model is retained and updated on an ongoing basis by Finance. This supports the future payments stream and year-end liability disclosures within the Statement of Accounts	Finance review this schedule to ensure that all base assumptions remain valid. Accuracy checks are performed to ensure that data items including principal repayment sums and the interest rate used (in the model) are appropriate	No	The model utilised ties movements within the liability to Outturn and Actual/Budget supporting data and these checks are evidenced within the model/file	No



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