This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Grant Thornton

West Berkshire Council audit plan

Year ending 31 March 2022

February 2023

Contents

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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.

Key matters

Factors

Recovery from Covid 19 pandemic

In 2020-21 and 2021-22 Central Government provided substantial funding to the Council in recognition of both the impact of the Covid-19 pandemic on the Council's finances and in recognition of the additional duties the Council took on in response to the pandemic.

The Council continues to recover from the impact of the pandemic and the impact on demand led services in particular has been considered as part of the Council's budget setting process.

Throughout the pandemic the Council has maintained strong financial control financial sustainability.

Financial management

The Council continues to have a good record for financial management. In 2021-22 the provisional outturn on the revenue budget indicates that the Council had a net underspend of £263,000 against a net revenue budget of £141,661,000.

The future funding framework for the wider local authority sector remains unclear. However, the Council has a robust medium term financial planning framework. The medium term financial strategy covers a five year period and was most recently formally updated in February 2022, with further scoping and detailed scenario planning taking place in July 2022. Whilst there remains considerable uncertainty in the current economic environment this medium term planning indicates that for all scenarios the Council will be required to make savings over the lifetime of the plan, with those assumptions based on continued stagflation requiring substantial annual savings in later years.

Audit Quality

On 29 October 2022, the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year.

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our response

- We will be mindful of the impact of Covid 19 on the Council's financial statements (for example with regard to asset valuations, recovery of debts and in accounting for grant income and expenditure).
- Although we have not identified a risk of significant weakness in the Council's arrangements, our Value for Money assessment will consider the Council's budget setting and medium term financial planning.
- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, will be agreed with both your Director of Corporate Services and PSAA prior to being communicated to yourselves for final approval.
- The results of the recent FRC review are outlined on pages 22 and 23.
- We will continue to provide you with sector updates via our Governance and Ethics Committee updates.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Ethics committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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

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

Significant risks

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

- ISA 240 – Revenue risk (rebutted)
- Management override of controls
- Valuation of land and buildings
- Valuation of investment properties
- Valuation of net pension fund liability

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

Materiality

We have determined planning materiality to be £5.827m (PY £5.15m) for the Council, which equates to 1.5% of your gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £291k (PY £255k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified no risks of significant weakness at this stage. We have considered a number of areas of focus at this time and these are detailed on page 16.

Audit logistics

We completed our planning and risk assessment work in January 2023 and our final visit will take place in February and March 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and the Auditor's Annual Report.

Our fee for the audit is proposed as £1117,049 (PY £137,549) for the Council, and is subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA (UK) 240 and nature of the revenue streams at West Berkshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including West Berkshire Council, mean that all forms of fraud are seen as unacceptable. We do not consider this to be a significant risk for West Berkshire Council.	
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override 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 will: • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (rolling revaluation)	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 (21-22 £538m) 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 2022. Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2022 in the Council's financial statements is not materially different from the current value, or the fair value for investment properties, at the financial statements date, where a rolling programme is used. 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.	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation expert. • Discuss with the valuer to confirm the basis on which the valuation was carried out. • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation. • Test, on a sample basis, revaluations made during the year to see if they had been input correctly into the asset register. • Evaluate 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.
Valuation of investment properties	The Council revalues its investment properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (21-22 £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 will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation expert. • Discuss with the valuer to confirm the basis on which the valuation was carried out. • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation. • Test, on a sample basis, revaluations made during the year to see if they had been input correctly into the asset register.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (21-22 £427m) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation expert. • Discuss with the valuer to confirm the basis on which the valuation was carried out. • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation. • Test, on a sample basis, revaluations made during the year to see if they had been input correctly into the asset register. • Evaluate 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.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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 will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register
Valuation of the pension fund net liability	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£427m in its balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • Obtain assurances from the auditor of Berkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund; and the fund assets valuation in the pension fund financial statements.

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Expenditure recognition	As most public bodies are net spending bodies, the risk of material misstatement due to fraud relating to expenditure may be greater than the risk of fraud relating to revenue. There is a risk that the Council may manipulate its expenditure to that budgeted. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end, or not record expenses accurately to improve financial results. In line with Practice Note 10, having considered the risk factors related to this risk and the nature of the Council's expenditure streams we have determined that the risk of fraud arising from expenditure can be rebutted because: • There is little incentive to manipulate expenditure recognition; • Opportunities to manipulate expenditure recognition are very limited; and • The culture and ethical framework of local authorities, including West Berkshire Council, mean that all forms of fraud are seen as unacceptable. However, we have identified that due to the level of estimation involved in the manual accruals of expenditure, and the potential volume of large accruals at year end, there is an increased risk of error of completeness in expenditure recognition.	We will: • Inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • Inspect a sample of accruals made at year end for non-pay expenditure not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. • Investigate manual journals posted as part of the year end accounts preparation that reduce expenditure, to assess whether there is appropriate supporting evidence for the transaction.
Accounting for grants revenue and expenditure	The Council (similar to all other local authorities) has been the recipient of significant increased grant revenues in 2021-22 relating to Covid-19 funding. Some of these grants relate to the Council and others are grants which should be passed on to other entities. The Council will need to consider, for each type of grant, whether it is acting as agent or principal and, depending on that decision, how the grant income and amount paid out should be accounted for.	We will: • Discuss with management and understand the different types of material grants received during 2021-22, and what the conditions are per grant agreements. • Understand the conditions for payment out to other entities. • Test material grant revenues to understand whether the Council should be acting as agent or principal for accounting purposes for specific grants, and ensure correct accounting treatment.

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

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

We identified four recommendations in our 2020-21 audit in relation to the Council's estimation process for valuation of land and buildings and accruals.

Introduction

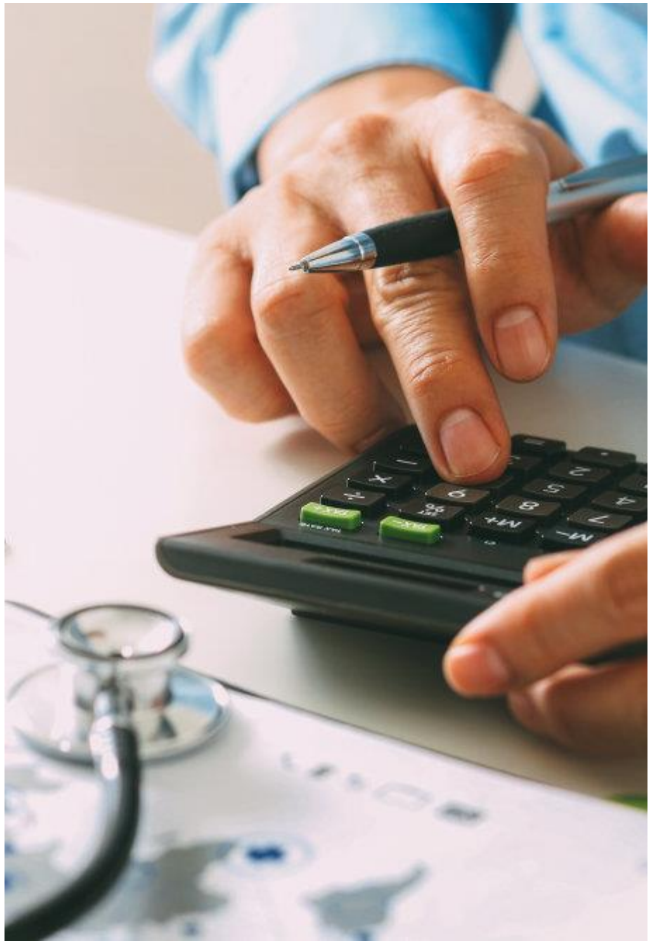
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- 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 entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity'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 Governance and Ethics 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?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Valuation of defined benefit net pension fund liabilities
- Depreciation
- Year end provisions and accruals, specifically for non-domestic rate appeals
- Credit loss and impairment allowances
- Fair value estimates

The Council's information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate; and
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainly is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we will make enquiries of management to obtain an understanding of managerial processes and the Council's oversight in a number of key areas including fraud, related parties and Accounting Estimates. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021-22 financial statements, consider and decide upon any objections received in relation to the 2021-22 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

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

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

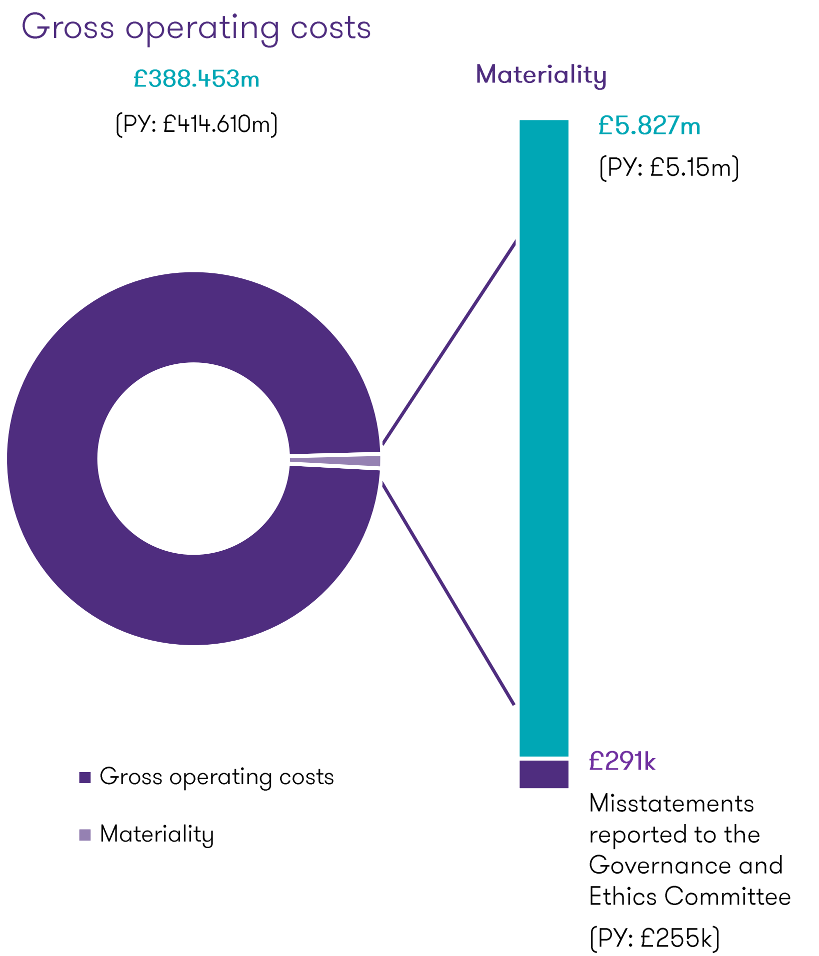
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £5.827m (PY £5.15m) for the Council, which equates to 1.5% of your gross expenditure for the year.

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

Matters we will report to the Governance and Ethics Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Ethics Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £291k (PY £255k).

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



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Agresso	Financial reporting	Streamlined ITGC design assessment
Northgate iWorld	Revenues and benefits	Streamlined ITGC design assessment

Value for Money arrangements

Approach to Value for Money work for 2021-22

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires 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 three specified reporting criteria. These are as set out below:

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.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Audit logistics and team

Planning & risk assessment

Governance and Ethics Committee
February 2023
Audit Plan

Year end audit
February – March 2023

Governance and Ethics Committee
TBC
Audit Findings Report & Audit Opinion

Governance and Ethics Committee
TBC
Auditor's Annual Report

Sophia Brown, Key Audit Partner

Sophia is responsible for the overall client relationship, quality control, provision of the audit opinion, meeting with key internal stakeholders and final authorisation of reports. Sophia will attend Governance and Ethics Committee meetings supported by David as required.

David Johnson, Audit Manager

David will work with the senior members of your finance team, ensuring delivery of the final accounts audit and VFM work. David is responsible for the overall management of our work with the Council, and quality assurance of audit work and outputs.

Audited body responsibilities

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

Our requirements

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

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

Audit fees

In 2017, PSAA awarded a contract of audit for West Berkshire Council to begin with effect from 2018-19. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs, which are relevant from the 2021-22 audit.

Across all sectors and firms the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake additional and more robust testing in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our fee incorporates the impact of FRC requirements and changes to standards in previous years which remain applicable for 2021-22. Our proposed fee for 2021-22 (PY £137,549) is set out below.

	Proposed fee 2021-22
Statutory audit for West Berkshire Council	£
Scale fee published by PSAA	80,423
Fee increases in previous years for the impact of revised ISAs and FRC requirements which remain applicable for 2021-22	17,626
Value for Money work	19,000
Total audit fees (excluding VAT)	117,049

Assumptions

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

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

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

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

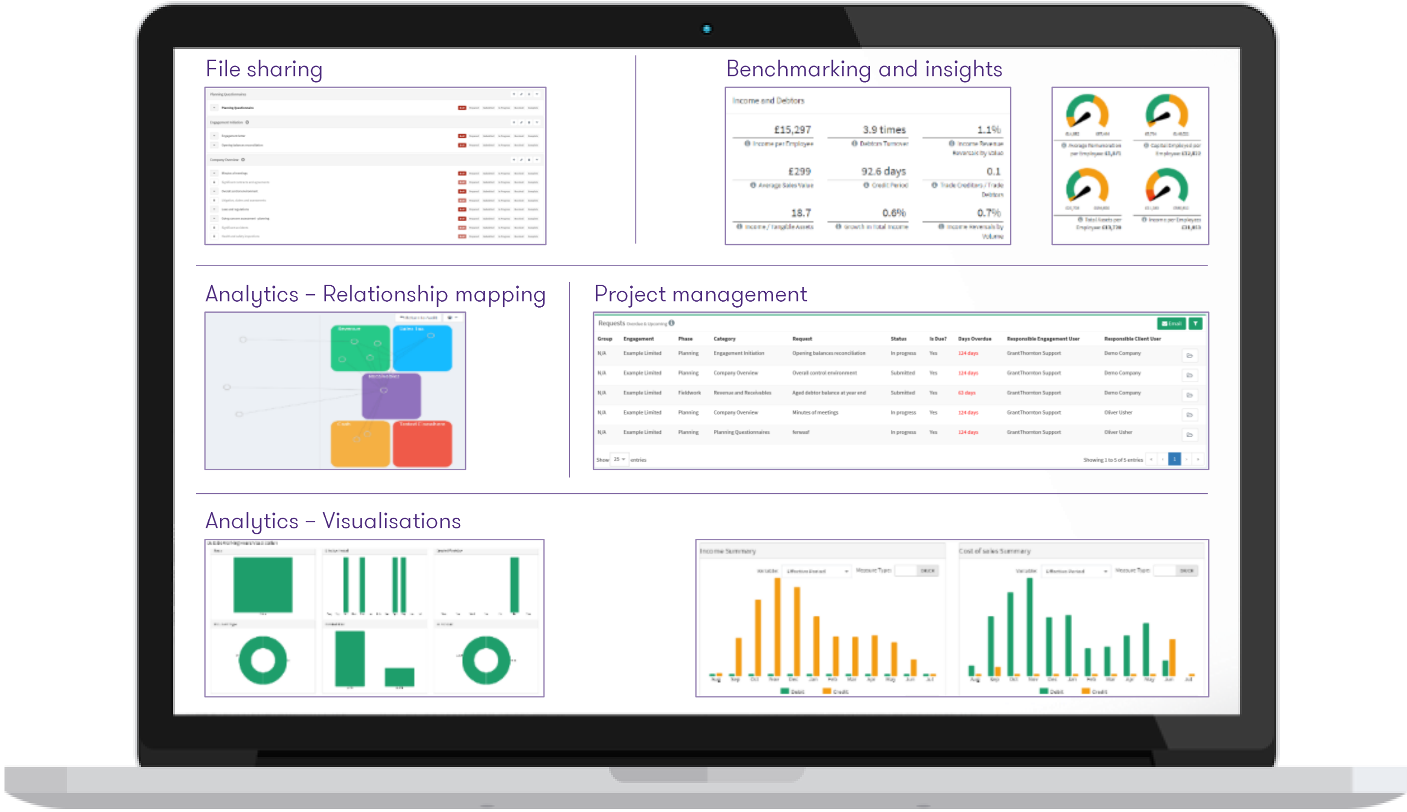
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teachers’ Pension return	7,500	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 £7,500 in comparison to the total fee for the audit 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.

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: FRC AQR Major Local Audits_October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Significant improvements from the FRC quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge; and
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Progress against prior year audit recommendations

We identified the following issues in our 2020-21 audit of the Council's financial statements, which resulted in 13 recommendations being reported in our 2020-21 Audit Findings Report. We have followed up on the implementation of our recommendations and 11 are still to be addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	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.	We will test the classification of grant income as part of our accounts testing to confirm that this has been appropriately undertaken.
✓	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.	This was corrected as part of the 2020-21 audit and we will review journal entries in the 2021-22 financial statements audit to ensure no similar issues are identified.
TBC	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	Testing of Property, Plant and Equipment (PPE) opening balances will be undertaken as part of the accounts audit and will confirm that assets have been correctly classified.
✓	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 is a risk over overstating balances within the financial statements and incurring costs that are not applicable to the Council	This was corrected as part of the 2020-21 audit and we will review revaluation movements as part of the 2021-22 accounts audit.
TBC	The Council have componentised an asset and have reallocated the asset building cost across the new components. This has been treated as a revaluation gain in the revaluation reserve whilst the overall value of the asset is a revaluation loss. The reallocation of the costs has been incorrectly recorded as a revaluation lass in the surplus/deficit on service provision . There is a risk that the CIES has been overstated and that disclosures have been incorrectly recorded.	We will review revaluation movements and classifications of gains and losses as part of the 2021-22 audit.
TBC	The Council has changed their 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 in line with this change. This has required a prior period adjustment to ensure that comparatives are consistent with updated policies	We will ensure that the Council has correctly applied accounting policies as part of the 2021-22 accounts audit.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	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 will include agreeing transactions and disclosures to supporting documentation to ensure that entries are accurately included.
TBC	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 due to the configuration of the Council's accounts system. We continue to discuss with management the most efficient means of ensuring that the correct information is provided for audit purposes.
TBC	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.	We will review the Expenditure and Funding Analysis as part of detailed testing and ensure that the appropriate disclosures are included.
TBC	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.	Testing will include agreeing transactions and disclosures to supporting documentation to ensure that entries are accurately included.
TBC	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	This is an ongoing issue due to the configuration of the Council's accounts system. We continue to discuss with management the most efficient means of ensuring that the correct information is provided for audit purposes.
TBC	The Council has made an adjustment to S106 payments to reclassify them from creditors to grants received in advance in line with the code. Further work is required to identify which of these relate to short term liabilities and which are long term	We will review the S106 payments as part of detailed testing and ensure that the appropriate disclosures are included.
TBC	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	We will review revaluation movements and supporting documentation to ensure that valuations are based on the most appropriate information.

Grant Thornton