



4 November 2024

Governance Committee Chairman  
 Councillor Erik Pattenden  
 West Berkshire Council  
 West Berkshire District Council  
 Council Offices  
 Market Street  
 Newbury  
 RG14 5LD

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Dear Councillor Pattenden

### **West Berkshire Council: Conclusion of the audit for 2021-22 and 2022-23 – letter to those charged with governance on the application of the local authority backstop**

As you will be aware, on 5 September 2024 the government published draft Accounts and Audit (Amendment) Regulations 2024. These Regulations, which are expected to be approved by 30 September 2024, set a publication date for financial statements up to and including 2022-23 of 13 December 2024. The new National Audit Office Code, which is expected to be approved by Parliament in mid-November 2024, also requires that auditors should issue their audit report in time for the relevant authority to publish its accounts by the specified date in those Regulations. Where audit work is not concluded, this will result in either a qualification or disclaimer of opinion.

As discussed with your Executive Director – Resources, and for reasons which I set out in more detail below, it will not be possible for us to complete the audits for 2021-22 and 2022-23 by the statutory backstop date. We therefore propose to issue a disclaimer of our audit opinion. I attach draft copies of the disclaimers for the attention of the Governance Committee.

We are required under Auditing Standards to report certain matters to the Governance Committee, including our responsibilities as auditor, the scope of the audit, independence, audit fees and any matters arising from the audit. I set out more details on the audit below. Information regarding our responsibilities, the scope of the audit and fees are included in the Appendix.

#### **Outcome of our audit for 2021-22 and 2022-23 – Disclaimer of the opinion on the financial statements**

For reasons set out below, it will not be possible for us to undertake sufficient work to support an audit opinion by the statutory deadline of 13 December 2024. This means that the limitations of scope imposed by the backstop are pervasive and therefore we have been unable to form an opinion on the financial statements by the due date. We therefore plan to issue disclaimers of the audit opinion for both 2021-22 and 2022-23. We have attached the draft wording of our Audit Reports for your information.

The main reason for the application of the backstop is that we have not been able to obtain sufficient appropriate audit evidence by the backstop date to conclude that the Authority's financial statements for the years ended 31 March 2022 and 31 March 2023 as a whole are free from material misstatement. We were also unable to obtain sufficient appropriate evidence for the corresponding figures for the same reason. We have therefore issued disclaimers of opinion on the financial statements. This enables the Authority to comply with the requirement in the Regulations that they publish audited financial statements for the year ended 31 March 2022 and 31 March 2023 by the backstop date. We have concluded that the possible effects on the financial statements of undetected misstatements arising from this matter could be both material and pervasive.

For the 2021-22 audit specifically, our audit procedures identified a likely material movement in the valuation of the Authority's assets not revalued in-year. We communicated this to management in February 2023 and discussed this with those charged with governance at the Governance Committee held on 20 March 2023. In response to this finding, management re-engaged their valuer to provide updated valuations as at 31 March 2022 for all assets with potential movement exceeding £100,000. This revised valuation was received in October 2023 but not updated within the 2021-22 financial statements.

### **Outcome of this year's audit – Value for Money work and other work under the National Audit Office Code of Audit Practice**

We undertook our Value for Money work for the years ended 31 March 2022 and 31 March 2023 and reported the outcome in a combined Interim Annual Audit Report dated March 2024.

The key findings for the year ended 31 March 2023 noted one significant weakness in relation to financial sustainability as follows:

- Significant weakness in the Authority's arrangements for financial sustainability. This was in relation to the following:

The Council has high debts, falling property valuations and low reserves which will make it difficult for the Council to absorb the overspends it is forecasting. We recommend that the Council monitors its financial position and the impact of spending controls closely. As a priority, the Council should consider all possible options, including those that focus on people Directorate contract spend but also other areas of the revenue account where efficiencies may be possible. Options under current discussion include divestment from capital assets with negative equity values. It will be important that any exit strategy adopted by the Council is supported by professional advice, reviewed regularly and is subject to appropriate scrutiny and challenge.

We are also required to report by exception if we have applied any of our statutory powers or duties.

We have nothing to report in respect of the above comment on statutory powers and duties.

### **Independence**

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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements. 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

### **Management letter of representation**

We have asked management to provide letters of representation in respect of the financial statements for 2021-22 and 2022-23. These will be tabled as a separate agenda item.

### **Looking ahead**

The circumstances resulting in the application of the local authority backstop are clearly extremely unusual. The government has signalled its intent that where backstops have been applied, local authorities and their auditors work together to recover the position over subsequent years. Your new auditor will follow relevant guidance including from the NAO and the FRC to work with you over the coming year, as we seek to rebuild audit assurance.

Yours sincerely

*Sophia Brown*

**Sophia Brown**

For Grant Thornton UK LLP

CC Executive Director - Resources

Attachments: Draft Disclaimer of Opinion 2021-22 and 2022-23

# Appendix

## 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 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's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit 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 in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of its responsibilities. It is the responsibility of the authority 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 authority is fulfilling these responsibilities.

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

## Audit Plan

For the year ended 31 March 2022, we issued an indicative Audit Plan in February 2023. In our plan we identified the following issues as significant audit risks:

- ISA 240 – Revenue risk – this risk was rebutted
- Management over-ride
- Valuation of land and buildings
- Valuation of investment properties
- Valuation of pension net fund liability

We have not identified any other significant risks since the date we issued our Audit Plan.

Due to delays in the completion of prior year audits, we were unable to issue an Audit Plan in respect of the year ended 31 March 2023.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

In our indicative Audit Plan for the year ended 31 March 2022, we determined planning materiality to be £5.827m (PY £5.15m) for the Council, which equated to 1.5% of the 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 was set at £291,000 for 2021-22 (PY £255,000).

Due to delays in the completion of prior year audits, we were unable to determine a materiality level for the audit of the year ended 31 March 2023.

### **Key financial reporting and audit issues identified during the audit**

In respect of the year ended 31 March 2022 we commenced our detailed audit work in January 2023. There is one key matter identified from our audit procedure in relation to the carrying value of unvalued assets, as detailed above in the body of the report. Based on the incomplete procedure performed, there are no other matters which we wish to bring to your attention.

As we have not undertaken any detailed work in respect of the financial statements audit of the year ended 31 March 2023, there are no issues we need to draw to your attention.

### **Going concern**

As auditors, we are required to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern (ISA (UK) 570).

In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector.

Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:

- the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities; and
- for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.

Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by a local authority meets this criteria, and so where undertaking work on your audit, we would normally expect to apply the continued provision of service approach. In doing so, we would consider and evaluate:

- the nature of the authority and the environment in which it operates;
- the authority's financial reporting framework;
- the authority's system of internal control for identifying events or conditions relevant to going concern; and
- management's going concern assessment.

As we have been unable to form an opinion on the financial statements, we are unable to draw a conclusion in this area.

### **Design effectiveness of internal controls**

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to management.

We have nothing to report in respect of the above.

### **Other matters which we are required to report on to those charged with governance**

We are required to confirm the following:

- We have not been made aware of any incidents of fraud in the period and no issues have been identified during the course of our audit procedures.
- We are not aware of any related party transactions which have not been disclosed.
- We are not aware of any significant incidences of non-compliance with applicable laws and regulations.

#### Audit fees and non-audit fees

PSAA set a scale fee for the year ended 31 March 2022 of £80,423 and for the year ended 31 March 2023 of £88,299. Given the unusual circumstances of the backstop, we await a determination from PSAA as to the appropriate fees to be charged for these audit years.

We have also undertaken the following non-audit work in respect of 2021-22 and 2022-23:

<b>Audit Service</b>	<b>Proposed Fee</b>	<b>Final Fee</b>
Audit of teachers' pension contributions year ending 31 March 2022	£7,500	£7,500
Audit of teachers' pension contributions year ending 31 March 2023	£10,000	£TBC

We have not been able to reconcile audit fees to the financial statements:

	<b>31 March 2022</b>	<b>31 March 2023</b>
Council audit fees per financial statements	<b>£92,000</b>	<b>£127,000</b>
Council audit fee per audit plan		No audit plan issued – scale fee
-Scale fee	£80,423	<b>£88,299</b>
-Revised ISAs and FRC requirements	£17,623	
-VFM work	£19,000	
Total	<b>£117,049</b>	
Teachers' pensions audit fee per financial statements	<b>£5,000</b>	<b>£5,000</b>
Teachers' pensions audit fees	<b>£7,500</b>	<b>£10,000</b>

The level of these recurring fees taken on their own is not considered a significant threat to independence in comparison to the total fee for the audit and relative to Grant Thornton UK LLP's turnover overall. Further there is no contingent element to it. These factors all mitigate any perceived self-interest threat to an acceptable level.