READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**25 September 2014**	**AGENDA ITEM:**	**3**
TITLE:	**APPROVAL OF 2013/14 ACCOUNTS, KPMG AUDIT MEMORANDUM & AUDIT OPINION**		
LEAD COUNCILLOR:	**CLLR STEVENS**	**AREA COVERED:**	**CHAIR OF AUDIT & GOVERNANCE**
SERVICE:	**FINANCIAL**	**WARDS:**	**BOROUGHWIDE**
AUTHOR:	**ALAN CROSS**	**TEL:**	**2058 / 9372058**
JOB TITLE:	**HEAD OF FINANCE**	**E-MAIL:**	**Alan.Cross@reading.gov.uk**

1. PURPOSE AND SUMMARY OF REPORT

1.1 In accordance with the Accounts & Audit Regulations, the Committee, on behalf of Council is required to approve the Council's accounts by the end of September.

1.2 As part of the annual external audit process of the Council's accounts, KPMG produce an Audit Memorandum to those charged with Corporate Governance prior to issuing their opinion.

1.3 KPMG have indicated that subject to the approval of the accounts by the Committee, the receipt by them of a Management Representation letter, the receipt by the Committee of the Report to those Charged with Governance they will be in a position to issue an unqualified audit report on the (amended) Council's accounts, thus concluding the accounts and audit process for 2013/14. This report sets out these documents, though for reasons of size the formal accounts have not been printed as part of the agenda. KPMG will be present at the meeting to deal with questions relating to their audit.

2. RECOMMENDATION

2.1 Audit & Governance Committee are requested to note:

a) the Management Representations letter from the Head of Finance

b) KPMG's (ISA 260) Report to those charged with governance

2.2	**Audit & Governance Committee are requested, on behalf of Council to approve the final accounts for 2013/14, noting that in doing so KPMG will be in a position to issue an unqualified opinion.**

3. POLICY CONTEXT

3.1 Each year as part of the annual external audit process the Council's External Auditor KPMG produce a report addressed to those charged with governance prior to issuing their Audit Opinion.

3.2 The Report is submitted to the Audit & Governance Committee as part of its duties on behalf of Council. Given the democratic nature of the Council it is possibly too simplistic to suggest the Committee is solely responsible for governance, and we suggest that Council as a whole as well as the Administration have some governance responsibilities too, as of course does the Corporate Management Team. To reflect this, the Annual Governance Report is signed by the Leader and Managing Director.

3.3 The general financial position was reported to the Committee at its end of June meeting, and the Council's draft accounts were signed off at the end of June by the Head of Finance and placed on the website shortly after that meeting. As is normal in the course of the audit we have agreed a small number of changes to the draft accounts. As part of the process, the Council's Section 151 Officer is required to submit a Management Representations letter to the External Auditor, and this is attached for the information of the Committee.

4. OPINION AND AUDIT MEMORANDUM / MANAGEMENT REPRESENTATIONS LETTER

4.1 Attached to this covering report are

- Management Representations Letter
- KPMG's Audit Memorandum to those charged with governance

4.2 **Implementing External Audit Recommendations**

KPMG's letter includes an update to a recommendation relating to our property system. Following last year's audit as part of the de-brief process we met with KPMG to review the final accounts and audit process. This has led to improvements in the process, which is acknowledged in the letter. We plan a further meeting shortly to consolidate this improvement for the future.

4.3 Last year, to improve the monitoring of implementation of recommendations Internal Audit incorporated a review of agreed recommendations in their audit programme and follow up procedures. We will endeavour to continue with this process.

4.4 KPMG Audit Differences

KPMG's Report sets out the more significant issues that have arisen in their audit and a small number of audit adjustments we have made to the draft accounts as a consequence of their work. The required adjustment are largely technical or presentational one. There have been no changes to the council's available balances and resources as a consequence of KPMG's audit.

5. FINANCIAL IMPLICATIONS

5.1 None, directly from this report.

5.2 As indicated above and in KPMG's report, a number of adjustments have been made to the accounts since June, but overall these have had no significant impact on the General Fund Balance.

5.3 The final accounts with the audit report will as usual be published on the Council's website.

6. LEGAL IMPLICATIONS

6.1 The process being followed is in line with the Accounts & Audit Regulations.

7. CONTRIBUTION TO STRATEGIC AIMS / COMMUNITY ENGAGEMENT /EQUALITY IMPACT ASSESSMENT

7.1 None directly from the report.

8. BACKGROUND PAPERS

8.1 None.

Managing Director: Ian Wardle

Reading
BOROUGH COUNCIL

Civic Centre, Reading, RG1 7AE
Switchboard ☎ 0118 939 0900
Document Exchange DX 40124 Reading
Fax 0118 958 9770
Minicom ☎ 0118 939 0700

KPMG LLP
12th Floor
15 Canada Square
Canary Wharf
London
E14 5GL

Our reference:
Your reference:

Date: 17 September, 2014

Direct ☎ 0118 937 2058
e-mail: alan.cross@reading.gov.uk

Your contact is:	**Alan Cross, Accountancy Section, Financial Services**

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Reading Borough Council ("the Authority") for the year ended 31 March 2014, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2014 and of the Authority's and the Group's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

   i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2014 and of the Authority's and the Group's expenditure and income for the year then ended; and

   ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

   The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable [ISA (UK&I) 540.22]

3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed. [ISA (UK&I) 560.9]

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter. [ISA (UK&I) 450.14]

Information provided

5. The Authority has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;

   - additional information that you have requested from the Authority for the purpose of the audit; and

   - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

   i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

   ii) The Authority has disclosed to you all information in relation to:

      a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Authority's and the Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Authority confirms that:

    The financial statements disclose all of the uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.

    Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:

        - statutory, contractual or implicit in the employer's actions;
        - arise in the UK and the Republic of Ireland or overseas;
        - funded or unfunded; and

- approved or unapproved,

have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was published in the agenda of the Council's Audit and Governance Committee for 25 September 2014 (and is therefore available on our website).

On behalf of the Authority, I confirm the above representations, to the best of my knowledge and belief, having made such enquiries as I consider necessary for the purpose.

Yours faithfully,

Alan Cross
Head of Finance

KPMG

cutting through complexity™

Report to those charged with governance (ISA 260) 2013/14

Reading Borough Council

25 September 2014

Contents

The contacts at KPMG in connection with this report are:

Tamas Wood
Director
KPMG LLP (UK)

Tel: 020 7311 6458
tamas.wood@kpmg.co.uk

Grant Slessor
Manager
KPMG LLP (UK)

Tel: 020 7311 3849
grant.slessor@kpmg.co.uk

Victoria Venables
Assistant Manager
KPMG LLP (UK)

Tel: 016 1286 4854
victoria.venables@kpmg.co.uk

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tamas Wood, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Reading Borough Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- our work to support our 2013/14 value for money (VFM) conclusion.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during March 2014 (interim audit) and August to September 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- reviewing the Annual Governance Statement (AGS);
- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages.

Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	We are pleased to report that our audit of your financial statements did not identify any material adjustments. The Authority made a small number of non-trivial adjustments, most of which were of a presentational or classification nature. There was no impact on the General Fund. For completeness, we have included a list of all non-trivial audit differences in Appendix 3. The Head of Finance has agreed that all of these will be adjusted.
Accounts production and audit process	The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.
Completion	At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.

Proposed opinion and audit differences

Our audit has identified a total of 5 audit adjustments to date.

The impact of these adjustments is to:

- **No impact on the general fund or HRA balances;**
- **Increase the surplus on the provision of services for the year by £4.6 million; and**
- **No impact on the net worth of the authority.**

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit & Governance Committee on 25 September.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any individually material misstatements. We identified a number of issues that have been adjusted by management Our audit identified a total of 5 significant audit differences, which we set out in Appendix 2. It is our understanding that these will be adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2014.

The net impact on the General Fund and HRA as a result of audit adjustments is to nil.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. We understand that the Authority will be addressing these where significant.

Movements on the General Fund and HRA 2013/14

£'000	Pre-audit	Post-audit	*Ref (App.3)*
Surplus on the provision of services	8,210	12,811	*1, 3*
Adjustments between accounting & funding basis under Regulations	(240)	(4,841)	*1, 3*
Transfers to earmarked reserves	(4,802)	(4,802)	
Increase in General Fund and HRA balances	**22,147**	**22,147**	

Balance Sheet as at 31 March 2014

£'000	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant and equipment	758,753	758,753	
Other long term assets	50,668	50,668	
Current assets	58,799	66,720	*2, 4, 5*
Current liabilities	(55,567)	(63,488)	*2, 4, 5*
Long term liabilities	(611,604)	(611,604)	
Net worth	**201,049**	**201,049**	
General Fund and HRA	(22,147)	(22,147)	
Other usable reserves	(56,718)	(56,718)	
Unusable reserves	(122,184)	(122,184)	
Total reserves	**(201,049)**	**(201,049)**	

Key financial statements audit risks and other areas of audit focus

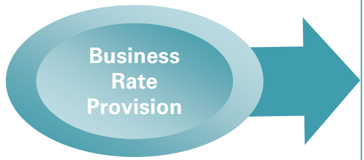
We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.

In our *External Audit Plan 2013/14*, presented to you in March, we identified the key risks affecting the Authority's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Area of focus	Issue	Findings
	The recent changes in business rate responsibilities mean that the Authority will be directly impacted by any successful challenges to rateable value arising from business appeals. While the impact in year has been slow to materialise the Council considers that it has a potential liability of around £13m. The Authority are due to use consultants to review this position at year end in order to determine an appropriate provision. We will review the basis of the provision including due consideration of the expertise of the consultants, the factors they have taken into account in their calculations and the robustness of the calculation in line with our audit materiality.	As part of our detailed testing we have reviewed the basis of the Council's provision and consider this to be reasonable erring on the cautious side. The Council has exercised an option to phase its full provision in over five years rather than recognising at once and we have confirmed that this is allowable in line with DCLG guidance. Our wider business rates testing has noted a number of classification errors (see Appendix 3) none of which have an impact on the bottom line general fund balance.

Key financial statements audit risks and other areas of audit focus

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.

Area of focus	Issue	Findings
LGPS Triennial Valuation	During the year the Local Government Pension Scheme for Berkshire (the Pension Fund) has undergone a triennial valuation in line with the Local Government Pension Scheme (Administration) Regulations 2008.The Authority's share of pensions assets and liabilities is determined in detail and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The IAS19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. Where data provided to the actuary is inaccurate this would impact on the actuarial figures in the accounts. Most of the data is provided to the actuary by the Royal Borough of Windsor and Maidenhead who administer the pension fund.	We reviewed the basis of the source data supplied to the pension fund administering authority. We liaised with the separate KPMG team who are the auditors of the pension fund where this data was provided by the pension fund on the Authority's behalf. Based on the work above no issues have been identified to bring to your attention.
Cedar Court	The authority commissioned the construction of and extra care housing scheme at Cedar Court. It was nearing completion in 2012 when some apparent defects were noticed. The authority was required to return part of the grant funding for the scheme to the HCA pending the resolution of these defects, after they had been used to finance the construction, and the outstanding sum was shown as a debtor in the 2012/13 and 2013/14 accounts. We will review the progress that has been made in this regard and give due consideration to the recoverability of any continuing HCA debtor held at year end.	We have confirmed that works have been completed and that debtor amounts deemed recoverable from the HCA were subsequently received during 2014/15.

Key financial statements audit risks and other areas of audit focus

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.

Area of focus	Issue	Findings
Equal pay provision	As noted in previous years the Authority are continuing to process the backlog of cases and associated job evaluations relating to equal pay As in the previous year we will review the basis of the provision at year end (including the continued appropriateness of the model used) with due consideration to the basis of any in year movements.	The basis of provision remains largely unchanged from the prior year and is not considered to be unreasonable. We will continue to monitor this provision in the medium term as the Council move towards final resolution of outstanding case.
Management Override of Controls	We consider management override of controls as a standard risk for all organisations.	Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any material issues.

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented the majority of the recommendations in our *ISA 260 Reports 2012/13 and 2011/12.*

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority’s accounting practices and financial reporting. We also assessed the Authority’s process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to have reasonable financial processes in place. There is scope to improve this further through more detailed review of the draft accounts for misstatements such as those identified in Appendix 3. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2014.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in March 2014 and discussed with the finance team, set out our working paper requirements for the audit. The quality of working papers provided was variable but met the standards specified in our *Accounts Audit Protocol*. We will discuss those that could be improved in the future with management as part of our planning for the next audit year.

Element	Commentary
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. In some cases, however, we experienced delays, specifically where staff who prepared the working papers were not available during the audit.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report* 2012/13. The exception to this is the introduction of a new asset register system which remains an ongoing project.

Appendix 1 provides further details.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Reading Borough Council for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Reading Borough Council its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Finance for presentation to the Audit & Governance Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The wording of your Annual Governance Statement accords with our understanding.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

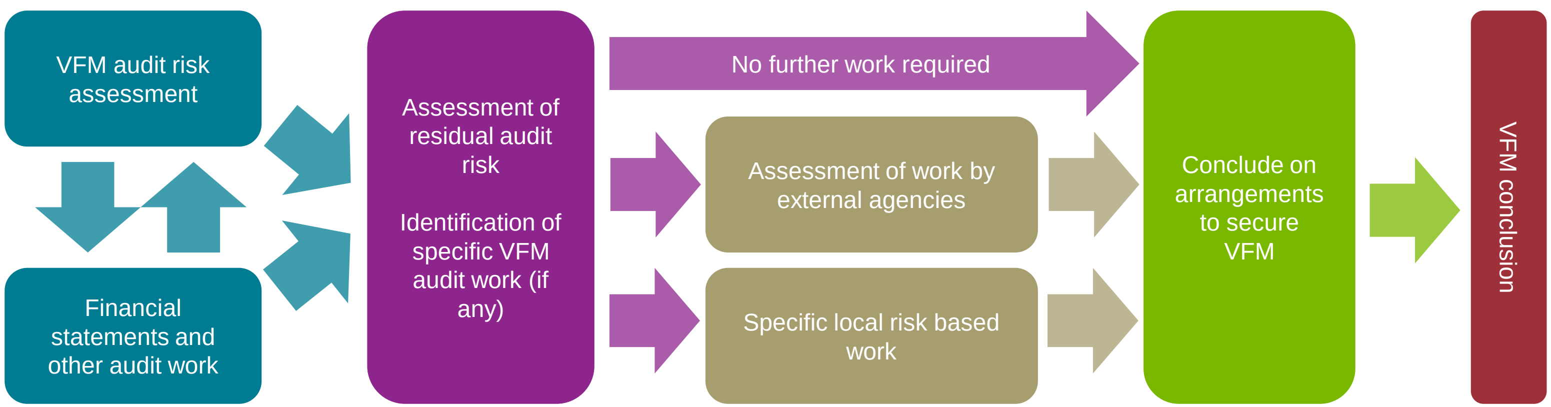
We have reviewed your Annual Governance Statement and have no issues to raise.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



Appendix 1: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Reports 2012/13 and 2011/12.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Reports 2012/13* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original reports	3
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2014
1	2	**Maintenance and operation of the fixed asset register** The fixed asset register used by the council is a complex excel spreadsheet that is difficult to understand and requires extensive knowledge of excel and the spreadsheet itself to maintain and operate. Using a spreadsheet for this raises the risk that the correct accounting entries are not produced, and that fixed asset balances can be overwritten or amended incorrectly. Part of the corporate knowledge required to maintain the spreadsheet is retained by a consultant and there are no guidance or process notes in existence, which raises the risk of this knowledge being lost to the council as insufficient information is available for an officer of the council to operate the spreadsheet if the contractor leaves. The IFRS work plan needs to consider whether the asset register will be capable of producing IAS-compliant data. The Authority has been considering investing in specialist asset management software and we would encourage it to do so, to reduce staff time spent managing the spreadsheet, reduce the risk of loss of knowledge and ensure greater transparency in financial reporting with a reduced risk of errors arising.	An asset management system has been procured which the Authority is in the process of implementing. This will have the effect of consolidating a number of existing systems including the excel spreadsheets used for IFRS accounting. Responsible: Chief Accountant Due date: Summer 2015	**Ongoing** Work on this project is underway and the Authority intend to implement this.

Appendix 2: Audit differences

This appendix sets out the significant audit differences.

It is our understanding that all of these will be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit & Governance Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Reading Borough Council's financial statements for the year ended 31 March 2014. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

	Impact £'000					Basis of audit difference
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
1	Dr Academy school removals £3,468 Cr NCOS Expenditure £3,468					The Council has had one Academy school transfer in year (George Palmer). This was included within Net Cost of Services rather than disclosed separately as in previous years.
2			Dr Cash and Cash Equivalents £1,000 Cr Short Term Investments £1,000			The Council holds £1m with Lloyds Bank which was classified as a short term investment. The nature of this holding means that it is more appropriate to hold this as cash.

Appendix 2: Audit differences

This appendix sets out the significant audit differences.

It is our understanding that all of these will be adjusted.

	Impact £'000					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
3	Dr Net Interest on Defined Benefit Liability £10,294 Cr Pension interest cost and return on assets £14,895 Dr Actuarial Gains £2,773 Dr Remeasurement £1,828					The Council had not updated its Comprehensive Income and Expenditure headings to reflect changes in IAS19 pension guidance and had included £4,601k of actuarial remeasurement costs within its net interest costs in error.
4			Dr Debtors £571	Cr Creditors £571		The Council had netted prepayments made to the Council from debtors rather than including these within creditors.

Appendix 2: Audit differences

This appendix sets out the significant audit differences.

It is our understanding that all of these will be adjusted.

	Impact £'000					
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	Basis of audit difference
5			Dr Debtors £7,350	Cr Creditors £4,704 Cr Provisions £2,646		Changes in accounting for business rates have resulted in the Council recognizing a provision for potential appeals to the rateable value of business premises. The Council have exercised an option to phase the value of the provision in over a five year period. The full value of the provision was initially included within debtors rather than recognizing the first year proportion as a provision.
	-	**-**	**Dr £7,921**	**Cr £7,921**	**-**	**Total impact of adjustments**

Appendix 3: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the ‘Code’) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Standing Guidance for Local Government Auditors* (‘Audit Commission Guidance’) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*’ that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit & Governance Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 3: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Reading Borough Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Reading Borough Council its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

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