



Reading
Borough Council
Working better with you

Jackie Yates
CHIEF EXECUTIVE

Civic Offices, Bridge Street,
Reading RG1 2LU
☎ 0118 937 3787

To: Councillor Williams (Chair)
Councillors McGoldrick, Asare, Dennis, Keane,
McGrother, Mitchell, Moore and Stevens

Direct :
nicky.simpson@reading.gov.uk

19 November 2025

Your contact is: Nicky Simpson, Principal Committee Administrator (Team Leader)

NOTICE OF MEETING - AUDIT AND GOVERNANCE COMMITTEE 27 NOVEMBER 2025

A meeting of the Audit and Governance Committee will be held on Thursday, 27 November 2025 at 6.30 pm in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

| | <u>Page No</u> |
|---|-----------------------|
| 1. DECLARATIONS OF INTEREST | |
| 2. MINUTES OF THE PREVIOUS MEETING HELD ON 25 SEPTEMBER 2025 | 3 - 8 |
| 3. QUESTIONS | |
| 4. EXTERNAL AUDITOR UPDATE | 9 - 72 |

A representative from the Council's External Auditor will present the draft External Auditor Annual Report for the year ended 31 March 2025 and an update on the audit process and External Audit Plan.

WEBCASTING NOTICE

Please note that this meeting may be filmed for live and/or subsequent broadcast via the Council's website. At the start of the meeting the Chair will confirm if all or part of the meeting is being filmed. You should be aware that the Council is a Data Controller under the Data Protection Act. Data collected during a webcast will be retained in accordance with the Council's published policy.

Members of the public seated in the public gallery will not ordinarily be filmed by the automated camera system. However, please be aware that by moving forward of the pillar, or in the unlikely event of a technical malfunction or other unforeseen circumstances, your image may be captured. **Therefore, by entering the meeting room, you are consenting to being filmed and to the possible use of those images and sound recordings for webcasting and/or training purposes.**

Present: Councillors McGoldrick (Vice-Chair in the Chair), Asare, Dennis, Keane, McGrother, Mitchell and Stevens

In attendance via Microsoft Teams Councillor Williams (Chair)

Apologies: Councillors Moore

(Councillor Williams was unable to attend in person, so attended remotely via Microsoft Teams, but did not vote on any of the items, in line with the requirements of the Local Government Act 1972)

9. MINUTES OF THE PREVIOUS MEETING HELD ON 16 JULY 2025

The Minutes of the meeting held on 16 July 2025 were confirmed as a correct record and signed by the Chair.

10. EXTERNAL AUDITOR UPDATE

The Committee received a covering report on behalf of the Council's External Auditor, KPMG, which had attached the External Audit Progress Report for September 2025.

Edward Mills from KPMG addressed the meeting and presented the report.

KPMG's report set out the work carried out since the last Committee meeting and the work planned before the next Committee meeting, a summary of the audit progress in each of the financial statement areas and a summary of work to date on the two risks of a significant weakness in arrangements to secure value for money that had been identified.

Resolved: That KPMG's External Audit Progress Report for September 2025 be noted.

11. TRAFFIC REGULATION ORDERS - UPDATE

The Committee received a report that provided an update on progress and decision-making in respect of the Traffic Regulation Orders (TRO) rectification process and recommended closing the Restitution Scheme.

The report explained that on 15 October 2024, a report had been presented to Council about irregularities in relation to certain historic Traffic Regulation Orders (TROs). As part of that report, an Action Plan had been agreed by Council (Minute 19 refers). The Audit and Governance Committee had been delegated authority to receive reports about the implementation of that Action Plan and to monitor its effectiveness. The Council had also delegated authority to the Committee to decide when to close the Restitution Scheme. Update reports had been submitted to the Committee in January 2025 and on 9 April 2025, when the Committee had agreed that, at its next meeting, it would consider setting a deadline for closing the formal Restitution Scheme and the Committee's monitoring of the Action Plan.

AUDIT AND GOVERNANCE COMMITTEE MEETING MINUTES - 25 SEPTEMBER 2025

The original Action Plan, and an updated Action Plan with RAG ratings applied, were attached to the report at Appendices 1 and 2 respectively, and the report gave details of key activities under each of the Action Plan headings.

The report stated that the Action Plan was now substantially complete and there were two future matters on the Action Plan which could be added to the Committee's Audit Tracker to ensure that they were reviewed in future:

- Following the APSE report it had been envisaged that there would be a further follow up Audit which had been scheduled for Q2 25/26. This was in hand and the outcome would be reported through the usual mechanisms to the Committee through the quarterly updates by the Chief Internal Auditor.
- A wider review of the Council's systems against the CIPFA/SOLACE Code of Corporate Governance had been recommended. This had last been reviewed in 2021/22. The timing of this was a matter for the Committee to determine.

The report explained that, given the low numbers of new referrals into the Restitution Scheme and the work which had been done to publicise the ability to claim refunds, it was now proposed to close the scheme. This would not diminish the ability of a member of the public to claim a refund for an historic Penalty Charge Notice if they had not already done so.

In response to a query about whether a press release was needed to inform the public that the Restitution Scheme was coming to an end, the Executive Director of Resources said that she would actively review the press coverage of the current meeting and arrange for a press release if necessary.

It was noted at the meeting that the Lead Officer for the wider review of the Council's systems was listed as the Assistant Director for Legal and Democratic Services (AD (L&DS)), but the current (AD (L&DS)) would be leaving the Council in December 2025, so this matter would need to be picked up by his replacement. Councillor McGoldrick asked for an update on how this review would be covered to be given to the Committee via the Chair and Vice-Chair.

Resolved:

- (1) That the progress made by officers to address the issues reported to Council on 15 October 2024, and ongoing actions, be noted;**
- (2) That the progress made on the Action Plan at Appendix 2 be noted and the outstanding actions on the Action Plan be added to the Committee's Audit Tracker;**
- (3) That the Restitution Scheme be closed;**
- (4) That it be noted that further claims which would have been allowable under the Restitution Scheme could still be made directly by motorists to Parking Services and would still be payable if they met the published conditions;**

- (5) That the Executive Director of Resources review the press coverage of the Committee meeting and arrange for a press release on the closure of the Restitution Scheme if necessary;**
- (6) That the Executive Director of Resources provide an update to the Committee via the Chair and Vice-Chair on who would be leading on the wider review of the Council's systems.**

12. INFORMATION GOVERNANCE QUARTERLY UPDATE

The Committee considered a report outlining the actions in progress to improve the Council's policies, systems and processes for Information Governance, following several limited assurance reports in this area up to Quarter 2 of 2025/26.

The report provided an update on: the action being taken to address the backlog of Subject Access Requests; the on-time responses to FOI requests, which stood at 87% in Quarter 1 and at 87.2% so far in Quarter 2. (The report gave further details of the errors in the last report to Committee in April 2025, which had been reported on the Minutes at the meeting on 16 July 2025, explaining that the data and processes had been reviewed, and the final total on-time responses in 2024/25 had been 74%); the Data Transparency pages updates; the work of the Information Governance Board; the Information Management Strategy, which set out the Council's approach to information management and governance; and uptake of the compulsory Cyber Security and GDPR training for all staff and Members, which was between 26 and 37% completed as at 9 September 2025.

The report also contained further information on the cyber security programme, giving details of cyber incidents, suspicious email and security trends and upcoming security changes.

The report stated that the current focus would be on user acceptance training on the redaction software, continuing the work with the Data Stewards Network and further communications to the organisation about the importance of completing the information governance and cyber security training.

It was noted at the meeting that it was important that Councillors maintained their cyber resilience, as they could potentially be a weak link, due to their public-facing role, and it was suggested that the cyber-resilience information shared with managers at a recent Teamtalk event could usefully be shared with members of the Committee by providing a briefing before a future Committee meeting.

Resolved:

- (1) That the progress made to date and the planned future actions be noted;**
- (2) That the Executive Director of Resources arrange for a briefing by the Assistant Director of Digital and IT for Committee members before a future Committee meeting on the cyber-resilience information shared with managers at the recent Teamtalk event.**

13. INTERNAL AUDIT QUARTERLY PROGRESS REPORT (Q2) AND UPDATED INTERNAL AUDIT PLAN

The Committee considered a report providing an update on progress made in delivering the Internal Audit Plan, including the key findings from the Internal Audit reports issued for the period 1 July to 30 September 2025 (Quarter 2). It also explained that the Internal Audit Plan had been revised to reflect the reintegration of Children's Services and Education into the Council from Brighter Futures for Children and that, due to the Audit function experiencing resource constraints due to unplanned investigations, some audit projects had been postponed or cancelled and would be reinstated if and when capacity permitted. Details of the amendments to the Audit Plan were set out in the report.

The report summarised the findings, recommendations and management actions that had been put forward for each audit review and stated the overall assurance opinion level given by the Internal Audit team. A total of two audit reviews had been finalised in the period, as follows:

- IT Disaster Recovery (Reasonable Assurance opinion given)
- Financial Assessments and Benefits Process (Limited Assurance opinion given)

The report gave details of an audit process into Fleet Management that had been carried out following whistleblowing concerns, which had found no evidence to support the concerns raised. The report also detailed the audits that were currently in progress, listed grant certifications, and gave a summary of the Corporate Investigations Team's work.

It was requested at the meeting that the Committee members be provided with access to copies of the original Audit reports from Brighter Futures for Children for those audits that had had limited or no assurance, which would be added to the Committee's Audit Recommendations Tracker. It was suggested that this might be achieved through placing them on the Sharepoint site for Committee members mentioned at recent training.

Resolved:

- (1) That the audit findings be noted, and the recommendations and management action under way, as set out in the Internal Audit & Investigations 2025/26 Quarter 2 Update Report, be endorsed;
- (2) That the changes to the Internal Audit Plan be approved;
- (3) That the Chief Auditor arrange for access for members of the Committee to copies of the original Audit reports from Brighter Futures for Children for those audits which would be added to the Audit Recommendations Tracker.

14. AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT 2024/25

The Committee received a report on its Annual Report on how it had complied with the 2022 CIPFA Position Statement and discharged its responsibilities during 2024/25. The Annual Report also included a self-assessment of the Committee's performance. The Annual Report was appended to the report and set out:

AUDIT AND GOVERNANCE COMMITTEE MEETING MINUTES - 25 SEPTEMBER 2025

- The Committee's remit and membership;
- Areas covered and work of the committee during 2024/25;
- Training undertaken by members during the year;
- A summary of an assessment of committee effectiveness carried out by Committee members and key officers with more detailed analysis provided in Appendix 2 to the report;
- An update on progress since the initial assessment against the CIPFA guidance was carried out; and
- Possible areas identified for improvement and forthcoming plans.

Members of the Committee and key officers had been invited to complete a questionnaire reviewing the Committee over the last municipal year. A summary of feedback was attached to the report at Appendix 2. The findings included:

- There was a high awareness among both councillors and officers of the committee's role and purpose.
- There was strong agreement that the committee adequately considered governance, internal control, and audit matters. However, officers indicated a decline in attention to risk management and financial reporting.
- Councillors reported improved escalation of issues, whilst officers observed a decline in the promptness and follow-up of actions.
- There was a marked improvement in councillors' awareness of training evaluations, with both groups perceiving that the committee had appropriate knowledge and skills.
- There was still a lack of clarity as to whether private meetings occurred with either internal or external audit.
- Both groups acknowledged the committee's value in improving governance and risk management.

The report stated that Committee members had continued to ask questions and challenge officers where appropriate throughout the year and had requested the attendance of various officers to provide updates on areas of concern.

Some areas for improvement had been identified and these were outlined in section 7 of Appendix 1 to the report. Generally, the Audit and Governance Committee complied with the 2022 CIPFA Position Statement, although it did not have any independent members on the Committee and had not reviewed the Annual Governance Statement during the year.

Resolved: That the Audit and Governance Committee's Annual Report be endorsed as a fair reflection of its performance over the 2024/25 Municipal Year for consideration by Council at its meeting on 14 October 2025.

15. STRATEGIC RISK REGISTER 2025/26

The Committee considered a report outlining the updates to the Strategic Risk Register (SRR), in line with the requirements of the Council's Risk Management Strategy. A copy of the SRR was attached to the report at Appendix 1. The Risk Register covered the actions completed by the Council for July to September to 2025 and the future risk ratings for October to December 2025. The SRR had been reviewed by CMT on 2 September 2025

AUDIT AND GOVERNANCE COMMITTEE MEETING MINUTES - 25 SEPTEMBER 2025

and no risks had been removed or de-escalated to the relevant Directorate Risk Register and there had been no new risks added to the SRR.

The Committee was asked to note there were now eight red risk cards, as follows:

- Cyber - Risk of loss from cyber-attack.
- Lack of local special educational needs and disabilities (SEND) placement provision to meet current and future levels of demand. Insufficient provision impacted on the Dedicated Schools Grant (DSG) High Needs Block (HNB) deficit.
- Unable to deliver a balanced budget because of demand pressures and achieving income targets.
- Failure to deliver zero carbon commitments (Climate mitigation).
- Failure to adapt to the impacts of climate change (Climate adaptation).
- Failure to safeguard vulnerable children.
- Failure to mitigate risks or manage issues, associated with health & safety, appropriately.
- Risk to adherence to Care Act Statutory duties as residents were waiting for an assessment or access to services in Adult Social Care.

The report stated there were now four amber risk cards.

Resolved: That the Council's Strategic Risk Register, as of September 2025, as set out in Appendix 1 to the report, be noted.

16. TREASURY MANAGEMENT REVIEW QUARTER 1 2024/25

The Committee considered a report on the activity of the Treasury Management function during the first quarter of the year for the period 1 April to 30 June 2025. The report stated that the CIPFA Code of Practice for Treasury Management 2021 recommended that the Committee should be updated on treasury management activities at least quarterly. The Committee was advised that there had been full compliance during this period with the Treasury Management Strategy Statement (TMSS), as agreed by Council on 25 February 2025.

The report had attached the MUFG Corporate Markets Economics Update; Borrowing and Investment Portfolios; and the list of approved countries for investments.

Resolved: That the Treasury Management Review Quarter 1 report for 2025/26 be noted.

(The meeting commenced at 6.30pm and closed at 7.26 pm)

Audit and Governance Committee

27 November 2025



Reading
Borough Council
Working better with you

| | |
|---|--|
| Title | External Auditor Update - KPMG |
| Purpose of the report | To note the report for information |
| Report status | Public report |
| Executive Director/ Statutory Officer Commissioning Report | Darren Carter – Director of Finance |
| Report author | Mark Sanders, Chief Accountant |
| Lead Councillor | Councillor Emberson, Lead Councillor for Corporate Services and Resources |
| Council priority | Not applicable, but still requires a decision |
| Recommendations | 1. That the Committee considers KPMG's Auditor's Annual Report and Progress Report |

1. Executive Summary

- 1.1. The Code of Audit Practice issued in 2024 by the National Audit Office requires the Council's external auditor KPMG to issue their 'auditor's annual report' to those charged with governance by 30 November each year. This report reflects the work completed to date since the issue of the last auditor's annual report and includes commentary on Value for Money.
- 1.2. As the audit of the 2024/25 Statement of Accounts has not been completed, the auditor's annual report is issued in draft and KPMG will update and reissue their report as a final version at the conclusion of the audit.
- 1.3. In addition to this, a more detailed progress report on the audit of the 2024/25 Statement of Accounts has also been prepared. Both reports are attached as appendices, and a representative from KPMG will present the reports to Committee.
- 1.4. The next backstop date by when an audit opinion on the 2024/25 Statement of Accounts should be given is 27 February 2026. The Council and KPMG are on track to meet this deadline.

2. Contribution to Strategic Aims

- 2.1. The external audit process includes the approval of the annual Statement of Accounts results and the publication of accurate, transparent financial information which gives a true and fair view of Reading Borough Council's economic performance and financial stability.

3. Environmental and Climate Implications

- 3.1. None Arising

4. Community Engagement

- 4.1. This report will include where appropriate any feedback from public inspection of accounts.

5. Equality Implications

- 5.1. None arising.

6. Other Relevant Considerations

- 6.1. There are none.

7. Legal Implications

- 7.1. The Accounts and Audit Regulations 2015 (as amended) require the council to produce and publish an annual Statement of Accounts in accordance with these regulations and “proper practice”.
- 7.2. Section 21 of the Local Government Act 2003 defines “proper practice” for this purpose to be the Chartered Institute of Public Finance and Accountability (CIPFA) Code of Practice on Local Authority Accounting (the Code) for the relevant year. The Code specified the principles, practices, format and content required in the preparation of the Statement of Accounts of the Accounts.

8. Financial Implications

- 8.1. None arising.

9. Timetable for Implementation

- 9.1. Not Applicable.

10. Background Papers

- 10.1. There are none.

Appendices

- 1. Draft Auditor’s Annual Report
- 2. Progress Report – Audit of 2024/25 Statement of Accounts



Auditor's Annual Report for Reading Borough Council

Year-ended 31 March 2025

—

27 November 2025

Contents



Key Contacts

Jonathan Brown
Partner
Jonathan.Brown@kpmg.co.uk

Mingjia Guo
Manager
Mingjia.Guo@kpmg.co.uk

| | Page |
|--|------|
| 01 Executive Summary | 3 |
| 02 Value for Money | 6 |
| a) Financial Sustainability | |
| b) Governance | |
| c) Improving economy, efficiency and effectiveness | |

Our audit report is made solely to the members of Reading Borough Council ('the Council'), as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the members of the Council, as a body, for our audit work, for our auditor's report, for this Auditor's Annual Report, or for the opinions we have formed.

External auditors do not act as a substitute for the Council'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.

01

Executive Summary

Executive Summary

Purpose of the Auditor's Annual Report

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2024-25 audit of Reading Borough Council (the 'Council'). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office (the 'Code of Audit Practice') and is required to be published by the Council alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014 (the Act). Our responsibilities under the Act, the Code of Audit Practice and International Standards on Auditing (UK) ('ISAs (UK)') include the following:



Financial Statements - To provide an opinion as to whether the financial statements give a true and fair view of the financial position of the Group and the Council and of its income and expenditure during the year and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2024/25 ('the CIPFA Code').



Other information - To consider, whether based on our audit work, the other information in the Statement of Accounts is materially misstated or inconsistent with the financial statements or our audit knowledge of the Council.



Value for money - To report if we have identified any significant weaknesses in the arrangements that have been made by the Council to secure economy, efficiency and effectiveness in its use of resources. We are also required to provide a summary of our findings in the commentary in this report.



Other powers - We may exercise other powers we have under the Act. These include issuing a Public Interest Report, issuing statutory recommendations, issuing an Advisory Notice, applying for a judicial review, or applying to the courts to have an item of expenditure declared unlawful.

In addition to the above, we respond to any valid objections received from electors.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities.

| | |
|-------------------------------------|--|
| Financial statements | The Code of Audit Practice requires us to issue the Auditor's Annual Report no later than 30 November of each year. In order for us to comply with this requirement, we have issued this Auditor's Annual Report prior to the completion of our work in relation to the financial statements and other information. Consequently, we have not reached our conclusions in respect of these areas and will report our results to the next Committee. |
| Other information | We did not identify any material inconsistencies between the content of the other information, the financial statements and our knowledge of the Council. |
| Value for money | We identified significant weaknesses in respect of the arrangements the Council has put in place to secure economy, efficiency, and effectiveness in the use of its resources. Further details are set out on page 7. |
| Whole of Government Accounts | <p>We are required to perform procedures and report to the National Audit Office in respect of the Council's consolidation return to HM Treasury in order to prepare the Whole of Government Accounts.</p> <p>As the National Audit Office has not yet concluded its audit of the Whole of Government Accounts for the 31 March 2025 financial year, we are unable to confirm that we have concluded our work in this area.</p> |
| Other powers | See overleaf. |



Executive Summary



There are several actions we can take as part of our wider powers under the Act:

Public interest reports

We may issue a Public Interest Report if we believe there are matters that should be brought to the attention of the public.

If we issue a Public Interest Report, the Council is required to consider it and to bring it to the attention of the public.

As at the date of this report, we have not issued a Public Interest Report this year.

Judicial review/Declaration by the courts

We may apply to the courts for a judicial review in relation to an action the Council is taking. We may also apply to the courts for a declaration that an item of expenditure the Council has incurred is unlawful.

As at the date of this report, we have not applied to the courts.

Recommendations

We can make recommendations to the Council. These fall into two categories:

1. We can make a statutory recommendation under Schedule 7 of the Act. If we do this, the Council must consider the matter at a general meeting and notify us of the action it intends to take (if any). We also send a copy of this recommendation to the relevant Secretary of State.
2. We can also make other recommendations. If we do this, the Council does not need to take any action, however should the Council provide us with a response, we will include it within this report.

As at the date of this report, we made recommendations under Schedule 7 of the Act (see page 18).

As at the date of this report, we have not raised any other recommendations.

Advisory notice

We may issue an advisory notice if we believe that the Council has, or is about to, incur an unlawful item of expenditure or has, or is about to, take a course of action which may result in a significant loss or deficiency.

If we issue an advisory notice, the Council is required to stop the course of action for 21 days, consider the notice at a general meeting, and then notify us of the action it intends to take and why.

As at the date of this report, we have not issued an advisory notice this year.

In addition to these powers, we can make performance improvement observations to make helpful suggestions to the Council. Where we raise observations we report these to management and the Audit Committee. The Council is not required to take any action to these, however it is good practice to do so and we have included any responses that the Council has given us.

02

Value for Money

Value for Money

Introduction

We are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or ‘value for money’. We consider whether there are sufficient arrangements in place for the Council for the following criteria, as defined by the Code of Audit Practice:



Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services.



Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services



Governance: How the Council ensures that it makes informed decisions and properly manages its risks.

We do not act as a substitute for the Council’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. We are also not required to consider whether all aspects of the Council’s arrangements are operating effectively, or whether the Council has achieved value for money during the year.

Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a risk of significant weakness is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor’s Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council.

Summary of findings

Our work in relation to value for money is substantially complete. WE will update this report when our work is fully complete.

| | Financial sustainability | Improving economy, efficiency and effectiveness | Governance |
|--|---------------------------------|---|---------------------------------|
| Commentary page reference | 9 | 13 | 16 |
| 2023-24 Findings | No significant risks identified | No significant risks identified | No significant risks identified |
| Identified risk of significant weakness at planning stage? | ✓ Yes | ✓ Yes | ✗ No |
| Significant weakness identified after fieldwork? | ✗ No | ✗ No | ✓ Yes |
| Direction of travel | ↗ | ↗ | ↗ |

Value for Money

National context

We use issues affecting Councils nationally to set the scene for our work. We assess if the issues below apply to Reading Council.

Local Government Reorganisation

The Government has announced proposals to restructure local government throughout England. County and District councils (and, in some cases, existing Unitary authorities) will be abolished and replaced with new, larger Unitary authorities, which will (in many cases) work together with peers in a regional or sub-regional Combined Authority. Authorities which are unaffected by these proposals may still see changes in local police and fire authorities and in the Councils they already work in collaboration with.

Restructuring has, in some cases, resulted in differing views on how services should be provided in their regions – with little consensus on how previously separate organisations will be knitted together. Councils will need to ensure that investment decisions are in the long-term interest of their regions, and that appropriate governance is in place to support decision making.

Financial performance

Over recent years, Councils have been expected to do more with less. Central government grants have been reduced, and the nature of central government support has become more uncertain in timing and amount. This has caused Councils to cut services and change the way that services are delivered in order to remain financially viable.

Whilst the Government has indicated an intention to restore multi-year funding settlements, giving Councils greater certainty and ability to make longer-term investment decisions, the Government has also proposed linking grant funding to deprivation. For some authorities this presents a significant funding opportunity, whereas for others this reinforces existing financial sustainability concerns and creates new financial planning uncertainties.

Education

Many schools are now the responsibility of academy trusts, however some schools are still controlled and overseen by the local Council. Dedicated funding is provided by central government to run schools, however due to cost pressures many Councils have overspent against their central government allocation, particularly in relation to “high needs” expenditure (i.e. to support students with special educational needs and disability (SEND)). Government guidance is awaited on childrens services reform and SEND, and some authorities are delaying transformation programmes until there is clarity on how services should evolve.

An accounting override exists meaning Councils do not need to recognise schools deficits as part of their reserves which, for some, avoids Councils becoming insolvent. This override was extended to March 2028. However, some have raised concerns that this extension only defers the problem, and the underlying unsustainability of education expenditure has not been resolved.

Local context

The Council is not unique among unitary authorities: the vast majority are using reserves to manage budgets and enacting large scale savings plans to balance Medium Term Financial Plans going forward.

Reading’s revenue budget for the year saw an overspend of £9.3 million (not including the DSG-linked overspend). An overspend of this size has a significant impact on the level of reserves and Reading will struggle to absorb this level of overspend if it continues through the next financial year.

Although the Council has reserves to cover this in the audited year, the Financial Resilience Reserve held for budget stabilisation has a total balance of £10.1 million at the year end, illustrating the size of the risk if overspends continue.

The Authority’s own risk management and financial reporting is clear that up to £16.2 million of savings will be required over the next three years in order to maintain this position.

We also note that the Dedicated Schools Grant position at the Council is growing in deficit. Whilst a national issue with the growth of individuals on Education Health Care Plans (EHCP), Reading have a number of capital projects and implemented governance recommendations to reduce the growth in size of the annual deficit, but it remains a risk for the entity as well.

The Council bringing back Brighter Futures for Children in house will give the Council greater visibility and control over the quality of children’s services and relevant spend.



Financial Sustainability



How the Council plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Conclusion on financial sustainability

Our risk assessment procedures identified a risk of significant weakness in the area of financial sustainability. We noted the 2024/25 outturn was an adverse variance of £9.3m to budget. As larger budget deficits can be indicative of weaknesses in arrangement around financial sustainability, we focussed on this area for more focus.

As our response to the risk identified above we performed additional procedures at year end. We have completed additional procedures and have concluded that no significant weakness identified. See page 12 for audit assessment and findings.

Delivery of the financial plan and position on reserves

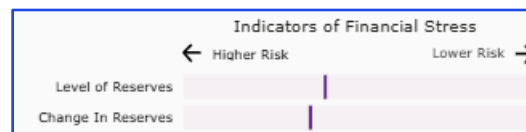
The Council set a balanced budget for the 24/25 financial year, recognising in the Medium Term Financial Plan that savings were required in order to achieve this, with total assumed savings in the budget of £8.5 million. The 2024/25 Quarter 4 Performance Report states that that 73% of the total identified savings were achieved, however there is an adverse net variance of £9.3 million.

The primary drivers for the adverse variance to budget to date were due to Adult Social Care (net pressure of £3.8 million) and Children's Social Care of £6.4 million. This is consistent with the Council's internal reporting and risk register, as well as identified pressure points in the previous financial year. The Council has reserves from which it can draw down and intends to fund the deficit through use of the Demographic & Cost Led Pressures Reserve of £5 million and the Financial Resilience Reserve of £4.3 million. This leaves a balance of £10.7 million in the financial resilience reserve and removes the Demographic & Cost Led Pressures Reserve or reserve.

This means total reserves have dropped from £66 million in 23/24 to £49 million, which includes some reserves that are not transferrable for deficit funding. A similar deficit in the next financial year could utilise the Financial Resilience Reserve in full.

We have considered the budget deficit on page 11 as part of our work over the risk identified at planning.

The reduction in reserves during the year has increased the underlying risk and this was noted in the below extract from the CIPFA Resilience Index 2023-24 and other benchmarking (discussed in the *Improving Economy, Efficiency and Effectiveness* section). The 2024-25 position will not be released before audited accounts, but we expect the position to worsen.



Source: CIPFA Resilience Index 2023-24

Financial Sustainability



How the Council plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Approval of Financial Plans

Guidance is issued (in line with practice noted in the previous year) by Finance to Assistant Directors on an annual basis, typically shortly after the previous financial year end. This includes guidance for Budget Managers to propose a budget with efficiencies, supported by Finance Business Partners. Business cases are reviewed and challenged by the Corporate Management Team (CMT) and are then taken through a Lead Member group challenge process.

Supported business cases are included within the MTFS reporting package and scrutinised at the Policy Committee. Following the finalisation of proposals, a final budget is produced and approved through the Policy Committee and up to full Council. KPMG have reviewed documentation and Committee minutes confirming appropriate consideration and challenge of proposals. The 2024/25 Budget & Medium-Term Financial Strategy 2024/25-2026/7 was approved by Council on 27 February 2024.

The Council's plans for 25/26 include an increase in Council Tax (2.99%) and Adult Social Care Precept (2%) and this together with an increase in the Band D equivalent taxbase equates to £7.3 million additional income, but note the budget also requires £7 million of savings and a reserves drawdown of £3.9 million to achieve a balanced budget. We reviewed these plans as part of our concluding report.

Monitoring of Financial results

All approved savings proposals generate a monthly savings tracker that is reported monthly as part of the budget monitoring process and included within the Quarterly Performance and Monitoring Report, reported through the Policy Committee. The Corporate Management Team also have a monthly meeting dedicated to performance, which we have also reviewed and judged the budgetary process to have an appropriate level of scrutiny, comparable with similar authorities of this size.

Internal audit have provided 'Reasonable Assurance' over the Council's core financial systems, which is the first report on the new financial ledger, as noted through the quarterly update provided to the 21 January 2025 Audit & Governance Committee.

Financial Sustainability

Dedicated Schools Grant

The government has in place a statutory override which has allowed Councils to exclude Dedicated Schools Grant deficits from their main revenue budgets, allowing Council's to account separately for this in an unusable reserve. The current override has been extended to 31 March 2028, after which there is lack of clarity over extension or reform of the High Needs Block. Councils building large deficits would face significant financial instability if the override was removed. Reading's in year DSG deficit was £15.5 million.

We acknowledge this is a risk to the Council, particularly if the current measures are ended. However, given this is applicable nationally to most Councils providing educational services and that Reading have identified the risk and put mitigations in place, this doesn't in itself constitute a weakness in arrangements for the current financial year.

Forward look

The latest Performance and Monitoring Report was taken to the Policy Committee in September 2025, which reported the position as at the end of Q1. This shows an overspend of approximately £4.2 million. This is summarised as a gross variance of £12.6 million (£4.1 million in Adult Social Care and £6 million in Children's Services), offset by £5.3 million of recovery plan mitigations. The Council expects to achieve 66% of the savings identified in the budgeting process, with 16% non-deliverable and 18% at risk of delivery. Both elements will likely contribute to a further challenging overspend by the year end.

The DSG position anticipates a deficit of £40.4 million by the end of the financial year to 31 March 2026 and £53.2 million the following year, should the underlying issues not be addressed.

| Key financial and performance metrics: | 2024-25 (£'000) | 2023-24 (£'000) |
|---|-----------------|-----------------|
| Planned surplus/(deficit), excluding HRA | Balanced | Balanced |
| Actual surplus/(deficit), excluding HRA | (9,305) | (6,099) |
| General Fund balance | 8,905 | 8,394 |
| Cumulative DSG deficit | 24,903 | 9,404 |
| Year-end borrowings | 200,145 | 187,889 |
| Year-end cash position | 33,901 | 24,169 |

Risk of significant weakness



1

Budget deficit 2024/25

Risk that value for money arrangements may contain a significant weakness linked to Financial Sustainability

Significant Value for Money Risk

The 2024/25 outturn suggests a £9.3 million adverse variance to Budget. Large budget deficits can be an indication of weakness in arrangements around financial sustainability.

Our response

We performed the following procedures:

1. Consider the Council's arrangements and structures to monitor and deliver a balanced budget;
2. Understand the process for identifying savings and other available levers to the Council;
3. Review recent budget monitoring and performance throughout the period to date; and
4. Conduct interviews with senior management to understand the feasibility of on-going recovery plans and measures to support financial sustainability.

Our findings

Findings

The Council set a balanced budget for the 24/25 financial year with total assumed savings in the budget of £8.5 million. As at end of 24/25, 73% of the total identified savings were achieved with an adverse net variance of £9.3 million. DSG deficit was £24.9m which is lower than the estimate of £26.5m per 24/25 MTFS. This gives us assurance that management recognised the scale of DSG appropriately. At 31/3/25 the Council has total general fund reserves of £49m.

The 2025/26 budget is balanced by an overall £3.9m assumed draw down on earmarked reserves. We inspected the latest report taken to the Policy Committee in September 2025, which reported an overspend of approximately £4.2 million. Whilst the financial position is in financial pressure the Council does acknowledge the risk and has identified financial pressures as a significant risk, which drives regularly performance monitoring.

The Council is also looking for savings to bring the deficit under control and is regularly monitoring the position.

The situation with RBC is not unique and many other authorities are in a similar financial position. We recognised the financial pressure as significant risk over the financial sustainability but do not consider this is a significant weakness as this risk is acknowledged and monitored by the Council with clear action plan to bridge the gap.

Conclusion

Based on the findings above we have not identified any significant weaknesses in arrangements.

Improving economy, efficiency and effectiveness



How the Council uses information about its costs and performance to improve the way it manages and delivers its services

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Council evaluates the services it provides to assess performance and identify areas for improvement;
- how the Council ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Council commissions or procures services, how it assesses whether it is realising the expected benefits.

Conclusion on arrangements for improving economy, efficiency and effectiveness

Our risk assessment procedures identified a risk of significant weakness in the area of improving economy, efficiency and effectiveness. This is due to the procedures performed during our risk assessment identifying the Council to have appropriate and effective processes in place.

Assessing Value for Money and Opportunities for Improvement

The Council had a target of £7.5 million regarding cost savings for the financial year 2024/25. In the Savings and Recovery Tracker, reported within the Quarter Performance Report (Policy Committee, July 2025), £5.5 million were delivered by 31 March 2025. This compares to £5.3 million savings planned in 2023/24 of which the Council achieved £4.2 million.

Cost saving performance is part of the regular reporting to the Council and Corporate Management Team, which allows the Council to assess the level of value for money being achieved. The Policy Committee also provide additional oversight and budgets are reviewed and managed on a regular quarterly basis through key performance indicators reported, with any expected significant variances escalated.

Monitoring of Performance of Services

Performance reporting and monitoring of efficiency plans has not changed significantly since our previous report, with reporting lines and documentation in line with other similar local authorities. We have reviewed the in-depth reporting. The Audit & Governance Committee review the Strategic Risk Register quarterly and Council also have oversight of the position annually through the Budget and the associated Chief Finance Officer's Report on the Robustness of the Council Budget.

The Corporate Plan also includes performance measures, key projects and initiatives and other non-financial metrics which also are reported to the Policy Committee as part of the Quarterly Performance and Monitoring Report. All collated information is subject to initial scrutiny by the CMT.

Improving economy, efficiency and effectiveness



How the Council uses information about its costs and performance to improve the way it manages and delivers its services

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Council evaluates the services it provides to assess performance and identify areas for improvement;
- how the Council ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Council commissions or procures services, how it assesses whether it is realising the expected benefits.

Benchmarking

The Council operate limited benchmarking activities on a case by case basis and review national benchmarking performed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Government Association (LGA). We will explore this area further as part of our overall conclusion.

We have reviewed the CIPFA outputs for the Council. Current benchmarking on the CIPFA Financial Resilience Index is based on 2023-24 data, however we expect the inputs to be similar for 2024/25 and its indicators of financial stress suggest the authority is generally lower-medium risk compared to its Nearest Neighbours and other Unitary Authorities. The Council's 'Level of Reserves' metric has deteriorated per the Index and is no longer considered 'Lower Risk'.

View from the regulators

The Council is subject to a number of inspections by the regulator. The latest Children's services inspection from Ofsted was received on 22 April 2024, however picks up a theme of a number of years, whereby the Children's services are assessed as 'Requires improvement to be good'. Our investigation into this matter in 23/24 showed evidence of improvement in this area and we concluded it was not a significant weakness.

However, a 'joint area child protection inspection' was carried out by Ofsted and partner organisations in March 2025, which states significant weaknesses were identified in the multi-agency approach to prevention, help and support for children and their families who are victims of domestic abuse in Reading.

Additionally, a recent judgment by the Regulator of Social Housing released in April 2025, rated Reading's services as C3, which suggests 'serious failings' and 'significant improvement' is needed.

Since our risk assessment, there has also been a report issued by the CQC with a status of 'Requires Improvement'. We have considered the arrangements in place regarding the issues identified within our significant risk area overleaf.

Risk of significant weakness



2

Regulator reporting identified weaknesses

Risk that value for money arrangements may contain a significant weakness linked to Economy, Efficiency and Effectiveness

Significant Value for Money Risk

The recent challenging reporting from Ofsted and the Regulator of Social Housing indicates that there is a risk that the Council does not have in place adequate arrangements to achieve economy, efficiency and effectiveness of services in the period.

Our response

We performed the following procedures:

1. Consider the recent reports and receive and evaluate other 24/25 reports when they are able to be provided;
2. Investigate and challenge management as to the drivers behind the reports and arrangements currently in place; and
3. Understand management's response to the reports, the action plan and future proposed arrangements.

Our findings

Findings

A Joint Targeted Area Inspection (JTAI) significant weaknesses in the multi-agency approach to prevention, help and support for children and their families who are victims of domestic abuse in Reading.

We have inspected the papers and progress report taken to Audit Social Care, Children's Services and Education Committee and confirmed an action plan is in place and progress is closely monitored following the publication of the inspection report in May. We do not consider this is a significant weakness in improving economy, efficiency and effectiveness as the Council has a detailed plan in place and monitor the implementation of action plan on a regular basis.

However, we consider this as a significant weakness in governance because no evidence of the Council identifying and attempting to mitigate risks in advance of the report. Hence, we considered this is an indication of lack scrutiny and consider it as significant weakness in governance.

We inspected the reports from the Regulators of Social Housing where a C3 rating was given due to the concerns regarding areas such as health and safety and transparency.

Following our inspection of reports taken to the Housing, Neighbourhoods and Leisure Committee we concluded that although there were weaknesses identified in the inspection, RBC had already identified the majority of the issues and had active action plans in place at the time of the visit. Delivery against these action plans has been monitored at each committee.

We also inspected the CQC inspection report regarding adult social care and the council's risk register. We confirmed that the Council have identified and attempted to mitigate the risk in advance of the report.

Conclusion

We do not consider there is a significant weakness in improving economy, efficiency and effectiveness as we have seen action plans the council have in place and evidence for monitoring the implementation of action plans.

However, we have determined that there is a significant weakness in governance as we do not see evidence of the Council identifying and attempting to mitigating risks in advance of the JTAI report.

Governance

How the Council ensures that it makes informed decisions and properly manages its risks.

We have considered the following in our work:

- how the Council monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Council approaches and carries out its annual budget setting process;
- how the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour.

Conclusion on governance arrangements

We did not identify a risk of significant weakness relating to governance during our initial risk assessment phase.

However, we updated this risk assessment in light of reports subsequently received from key regulators:

- A report from Ofsted and the Joint Targeted Area Inspection (JTAI) was issued on 6 May 2025. This was an inspection of the Brighter Futures partnership, carried out by inspectors from Ofsted, the Care Quality Commission (CQC), His Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) and His Majesty's Inspectorate of Probation (HMIP). An improvement notice was issued on 31 July 2025, and a DfE Improvement Advisor was appointed to oversee progress against the highlighted areas for improvement
- The regulator of social housing issued a regulatory judgement on 30 April 2025 resulting in a C3 grading. The report highlighted serious failings in delivery of the outcomes of the consumer standards.
- The Care Quality Commission issued its Local Authority Assessment on 10 October 2025 which gave a 'requires improvement' grading.

We have reviewed these reports and discussed the findings and Action Plans with key Council Executives. Our work is considered on page 15. We have concluded that there is a weakness in underlying governance in the financial year, as, although some of the issues highlighted in the reports were known and being managed, many were not. We have therefore made a recommendation regarding a review of the underlying risk management and escalation arrangements.

Approach to identifying, monitoring and management of risk

The Council's guiding governance document is the Constitution. This is built on with the Council's risk management policy and procedure, which further formalises the risk management structures within the authority and cements its approach to risk assessment.

There are five levels of risk register operated within the Council, the highest being the Strategic Risk Register. A 5 x 5 scoring matrix is used by the Council to score risks on the Strategic Risk Register (Impact x Likelihood). The Strategic Risk Register has 11 risks identified, the mostly highly rated include: inability to deliver a balanced budget, SEND provision, climate mitigation, cyber risk and safeguarding of vulnerable adults and children. Our review of the risk register found that this was sufficiently detailed to effectively manage key risks and we identified evidence of review within the Audit & Governance Committee throughout the year.

Given the recent Ofsted report referenced later in the report, it is positive that the Council had already recognised this on the Risk Register. The risk had reduced since Q4 23/24 from 16 to 9, however since the recent inspection the risk has moved back to 16, recognising the outcome and need to deliver the improvement plan. There were actions in place before the report was issued in order to continue to reduce the risk.



Governance



Fraud, Laws and Regulation and Officer compliance

The effectiveness of internal controls is monitored by the Audit & Governance Committee, through reporting from Internal Audit and Counter Fraud. The programme of work for each organisation is approved at the start of the financial year by the Audit & Governance Committee, following input by the CMT. Any recommendations raised by Internal Audit or the Counter Fraud teams are reported to the Audit & Governance Committee. Our review of the Audit & Governance Committee papers confirmed that there were appropriate discussions and follow up of recommendations for both Internal Audit and Counter Fraud.

The Council retains a suite of policies (in line with other comparable local authorities), which clearly outline the expected behaviour of Councillors and officers in relation to areas such as Staff and Councillor Codes of Conduct and Members' Allowances. Specific guidance is in place for teams and managers via standards of behaviour for these roles. Overall compliance with legislation, laws & regulations are monitored by management. The authority has a dedicated Whistleblowing email and includes guidance on conflicts of interest and gifts & hospitality in the Code of Conduct.

Internal audit

We noted in the Annual Assurance report from Internal Audit that the majority of the reports issued in year have reasonable assurance. There are three reports with limited assurance, which found evidence of improvements required to controls around Residents Parking Enforcement, Commercial Properties (rent roll) and Supporting Living tendering. Whilst important to consider, we do not think that these reports alone amount to a significant weakness in overall governance.

View from the regulators

The Council is subject to a number of regular inspections by the regulator. We have considered the outcomes of these reports in economy, efficiency and effectiveness and concluded that there is a significant weakness in governance in the financial year, due to some of the issue identified in the report pertaining to Brighter Futures for Children having not been identified by the council prior to the inspection.

| | 2024-25 | 2023-24 |
|--|--|---|
| Control deficiencies reported in the Annual Governance Statement | None | None |
| Head of Internal Audit Opinion | Reasonable Assurance | Limited Assurance |
| Ofsted rating | Children's Services - Requires improvement | Children's Services - Requires Improvement |
| Care Quality Commission rating | Requires improvement | No overall rating – individual services rated as 'Good' |

Value for Money: Recommendations



The recommendations raised as a result of our work in respect of significant value for money weaknesses in the current year are as follows:

| # | Issue, Impact and Recommendation | Management Response/Officer/Due Date |
|---|---|--|
| 1 | <p>Issue</p> <p>A Joint Targeted Area Inspection identified significant weaknesses in the multi-agency approach to prevention, help and support for children and their families who are victims of domestic abuse in Reading.</p> <p>While we appreciate that some of the issues identified were known by the Council and were being worked upon by the Council, some of them were not which raises questions regarding the underlying risk management arrangements and escalation of risk.</p> <p>We note that RBC have responded well to the findings of the report, and a detailed action plan is in place to respond to the failings and this is being effectively monitored.</p> <p>Impact</p> <p>A lack of effective oversight may lead to the council failing to deliver services efficiently. This could also expose the council to increased financial pressures and result in significant legal or reputational consequences.</p> <p>Recommendation</p> <p>We recommend that the council:</p> <ul style="list-style-type: none">• continue to implement the agreed action plan and closely monitor progress against the plan;• Revisit their risk management arrangements in light of the report to understand how these issues were not highlighted, risk assessed and escalated sooner and in advance of the report being issued• Use the findings from this review to look across to other services across the Council that may have similar failings that are continuing without the appropriate scrutiny or support | <p>The multi-agency focus on safeguarding as reviewed through the JTAI inspection includes a number of formal reporting channels where issues can be escalated and shared. This, together with the actions already in place following the inspection will be reviewed to ensure any underlying risk trends can be identified early, reported to Lead Safeguarding Partners and management action taken accordingly.</p> <p>Officer Responsible: Director of Children's Services</p> <p>Due Date: 31/3/26</p> |

Value for Money: Recommendations



Below we have set out our findings from following up recommendations raised in respect of significant weaknesses identified in prior periods:

| # | Issue, Impact and Recommendation | Management Response/Officer/Due Date | Update as of October 2025 |
|---|--|---|---|
| 1 | <p>Issue</p> <p>As part of the financial statements audit and internal audit's annual assurance report, deficiencies were found in the Employee Gifts & Hospitality and Declarations of Interest register.</p> <p>Impact</p> <p>The Council may be vulnerable to conflicts of interest. There is a risk of undue influence over decisions where undeclared interests, gifts or hospitality are not identified. This also exposes the Council to accusations of undue influence, where decisions are made without these considerations, regardless of whether this has or has not been exercised.</p> <p>Recommendation</p> <p>The Council should apply a more rigorous approach to declarations of interests and gifts & hospitality, with centralised and regularly updated/reviewed registers.</p> <p>To ensure these are kept up-to-date, these could be tracked through the Audit and Governance Committee.</p> | <p>The Council will review and improve the arrangements for managing Employee Gifts & Hospitality and the Declarations of Interest register. Progress on implementing audit findings will continue to be included in regular performance reports to the Audit and Governance Committee.</p> <p>Officer: Monitoring Officer</p> <p>Due Date: 31/3/25</p> | <p>The Council has updated its Gifts and Hospitality Policy which is available on the Council's intranet site. New processes are in place and communicated to all staff.</p> <p>We have obtained the recent internal audit report which suggests inconsistency still remains. Hence we keep this recommendation open.</p> |
| 2 | | | |



kpmg.com/uk

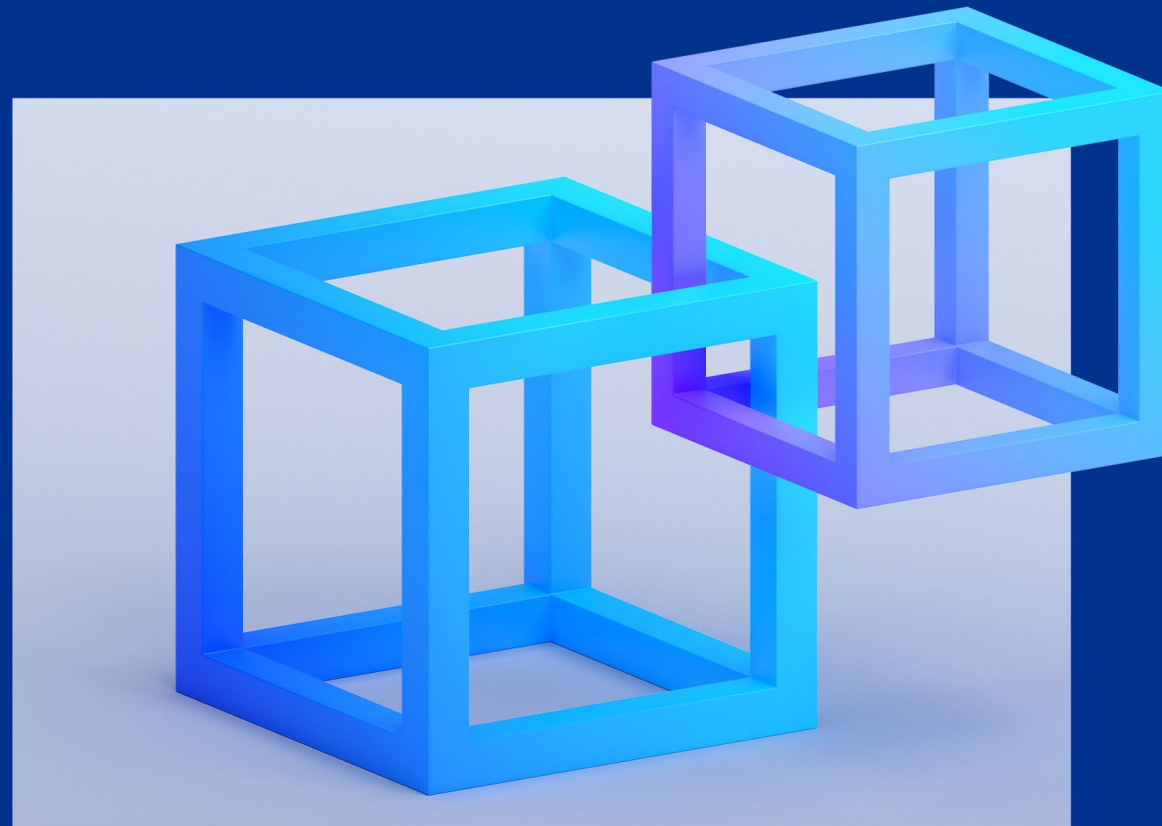
Progress Report to the Audit & Governance Committee

Reading Borough Council

for the year ended 31 March 2025

—

November 2025



Introduction

To the Audit and Governance Committee of Reading Borough Council

We are pleased to have the opportunity to meet with you on 27 November 2025 to discuss the initial results of our audit of the financial statements of Reading Borough Council (the 'Council'), as at and for the year ended 31 March 2025.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 16 July 2025. We will be pleased to elaborate on the matters covered in this report when we meet.

| Contents | Page |
|---|------|
| Important notice | 3 |
| The statutory backstop and rebuilding assurance | 4 |
| Our audit findings | 5 |
| Audit risks and our audit approach | 6 |
| Other matters | 20 |
| Value for money | 21 |
| Appendix | 27 |

The engagement team

Subject to the approval of the statement of accounts, we expect to be in a position to sign our audit opinion on the approval of those statement of accounts and auditor's representation letter on 27 February 2026, provided that the outstanding matters noted on page 6 of this report are satisfactorily resolved.

There have been no significant changes to our audit plan and strategy.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,

Jonathan Brown

Partner – KPMG LLP

November 2025

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management; and,
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We are committed to providing you with a high-quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jon Brown, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with the response, please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Tim Cutler. (tim.culter@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access KPMG's complaints process here: [Complaints](#).



Important notice



This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of Reading Borough Council (the 'Council') prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted by the Code of Practice on Local Authority Accounting in the United Kingdom, as at and for the year ended 31 March 2025.

This Report has been prepared for the Council's Audit and Governance Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Council's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit and the implications of the statutory backstop

Page 4 'The statutory backstop and rebuilding assurance' explains the impact of the statutory backstop and our resulting conclusion to issue a disclaimer opinion on the financial statements

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 6 'Our Audit Findings' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.



The statutory backstop and rebuilding assurance

Background

The Government has introduced measures to resolve the legacy local government financial reporting and audit backlog.

Last year, amendments were made to the Accounts and Audit Regulations and NAO's Code of Audit Practice which allowed auditors to give disclaimed opinions over any open, incomplete audits up to the period ending 31 March 2023. These were required to be delivered by 13 December 2024. For Reading Borough Council this had the impact of a disclaimed audit opinion issued by your predecessor auditor for two financial years up to and including 2022/23 (as issued by the previous auditors). We then issued a disclaimer of opinion for 2023/24 on 28 February 2025 to comply with the statutory backstop date relevant to our audit for the reasons set out in our audit report on the 2023/24 financial statements.

Work has been ongoing in the sector to develop guidance to help support appropriate audit procedures for audits where further work is required to build back assurance. Further guidance has now been published by the NAO through the Local Audit Reset and Recovery Implementation Guidance (LARRIG) 06 - Special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions.

The 2023/24 audit

In our *Year end report for the year ended 31 March 2024* we reported that we were not able to complete work on the following areas:

- The 2023/24 opening balances including the split of useable and unusable reserves;
- Closing Balance Sheet balances related to reserves, short term debtors, cash & cash equivalents and investment property

On Page 5, we set out what work we have been able and not been able to complete in respect of the 2024/25 financial statements.

Following the publication of LARRIG 6, we have started our rebuilding assurance risk assessment work which will allow us to ultimately respond to the key issue of gaining assurance on brought forward reserves in light of the financial years that did not receive an audit. We will have completed this risk assessment before we sign in February 2026.

Impact on our audit of the financial statements

Given our work to rebuild assurance is not complete we do not have assurance over the split of useable and unusable reserves and we have determined that there is insufficient time to complete our audit to obtain sufficient appropriate audit evidence, and, in our view, this is pervasive to the financial statements as a whole.

Further to this, we do not have sufficient appropriate audit evidence over all the comparatives in the CIES relating to 2023/24.. We also do not have sufficient appropriate audit evidence over all the comparatives in the balance sheet relating to 2023/24.

As a result of the above and irrespective of the level of work completed on 2024/25 balances, we intend to issue a disclaimer opinion on the financial statements, with the plan to reduce this to a qualified opinion in 2026.

Other matters

As required by the ISAs (UK) when we are disclaiming our audit opinion, our audit report will not report on other matters that we would usually report on, most notably the use of the going concern assumption in the preparation of the financial statements; the extent to which our audit was considered capable of detecting irregularities, including fraud; and whether there are material misstatements in the other information presented within the Statement of Accounts.

Although we are disclaiming our audit opinion we have, in this report, reported matters that have come to our attention and, where appropriate, we intend to include in our audit report.

Value for Money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Council's Value for Money arrangements. We are responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Page 24 provides a summary of our findings. Further details are also available in our Auditor's Annual Report for 2024/25.

Our audit findings

| Significant audit risks | Page 6-15 |
|-------------------------|-----------|
|-------------------------|-----------|

| Significant audit risks | Our findings |
|--|---|
| Valuation of land and buildings | We found the valuation of land and buildings to be appropriate. |
| Valuation of investment property | We found the valuation of investment properties to be optimistic. See page 9 for detail. |
| Management override of controls | Our review of journals has not identified any instances of management override of controls. |
| Valuation of post retirement benefit obligations | We found the valuation of post retirement obligations to be balanced. Our specialist is finalising their work and will provide an update to the next Audit Committee meeting. |
| Fraud risk from expenditure recognition | Our test have not identified any instance of fraudulent expenditure recognition |

| Other audit risks | Page 16 - 17 |
|-------------------|--------------|
|-------------------|--------------|

| Other audit risks | Our findings |
|--|--|
| Adoption of IFRS 16 | No significant finding to report based on the work completed to date. |
| Non-capital expenditure is inappropriately recognised as capital | Our testing over capital expenditure incurred did not identify any capital expenditure inappropriately recognised. |

| Uncorrected Audit Misstatements | Page 33 |
|---------------------------------|---------|
|---------------------------------|---------|

We have identified 2 uncorrected audit misstatement based on work completed to date. See page 33 for detail.

| Number of Control deficiencies | Page 34 |
|--------------------------------|---------|
|--------------------------------|---------|

| | |
|--|---|
| Significant control deficiencies | 0 |
| Prior year control deficiencies | 4 |
| Prior year control deficiencies remediated | 3 |

Outstanding matters

Our audit is substantially complete except for the following outstanding matters

- Consolidation
- Finalising work around pension
- Building back assurance risk assessment
- Final review
- Management representation letter
- Signed annual report to KPMG
- Finalise audit report and sign

We are in the process finalising our work mentioned above, especially for the building back assurance risk assessment. Therefore, we will provide further update in the next meeting.

Audit risks and our audit approach

1 Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value



Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five-year cycle.

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.

As at 31 March 2025, the council's land and buildings was £396.98m, of which £96.25m was subjected to valuation in year. Dwellings are valued 100% in year (£567.15m).

A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the engaged valuer.



Our response

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

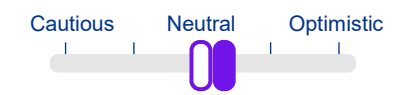
- We critically assessed the independence, objectivity and expertise of Sanderson Weatherall, the valuers used in developing the valuation of the Council's properties at 31 March 2025;
- We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement;
- We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We utilised our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised; and
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Key:
0 Prior year 1 Current year

Audit risks and our audit approach (cont.)

1 Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value



Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five-year cycle.

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.

As at 31 March 2025, the council's land and buildings was £396.98m, of which £96.25m was subjected to valuation in year. Dwellings are valued 100% in year (£567.15m).

A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the engaged valuer.



Our findings

- We did not identify any issues with independence and objectivity of Sanderson Weatherall, the valuers used in developing the valuation of the specialised land and buildings and the surplus assets at 31 March 2025. We did not identify any issues in respect of the instructions provided to the valuation specialist by the Council..
- We have considered the method and assumptions used in undertaking the depreciated replacement cost valuation and council dwellings valuations and noted these to be appropriate.
- Our procedures to agree the impairment and revaluation entries and associated disclosures are complete and we have no issues to report as a result of this work.
- We utilised our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised. We concluded that the land, building and dwellings are valued on a neutral basis.
- As part of our audit procedures in 2023/24 and 2024/25 we have reviewed the revaluation of other land and building of which £224.67 m of the Council's £369.98m portfolio of Other land and Buildings has been revalued (61%). We are still in the process of performing roll-back procedures over valuations prior to 2023/24 as part of our Building Back Assurance work.

Key:

0 Prior year 1 Current year



Audit risks and our audit approach

2 Valuation of investment property

The carrying amount of revalued investment property differs materially from the fair value



Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property.

The Council has a £57.26 million portfolio, primarily consisting of industrial estates and office space.

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

Our response

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We critically assessed the independence, objectivity and expertise of Sanderson Weatherall , the valuers used in developing the valuation of the Council's investment property at 31 March 2025;
- We inspected the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We challenged the appropriateness of the valuation; including any material movements from the previous revaluations. We challenge key assumptions within the valuation as part of our judgement;
- We agreed the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We utilised our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised; and

Key:
 Prior year  Current year

Audit risks and our audit approach (cont.)

2 Valuation of investment property

The carrying amount of revalued investment property differs materially from the fair value



Page 39

Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property.

The Council has a £57.26 million portfolio, primarily consisting of industrial estates and office space.

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

Our findings

- We did not identify any issues with independence and objectivity of Sanderson Weatherall, the valuers used in developing the valuation of the specialised land and buildings and the surplus assets at 31 March 2025. We did not identify any issues in respect of the instructions provided to the valuation specialist by the Council.
- We identified a number of judgments regarding asset yields within our sampled population that appear optimistic when compared to comparable asset benchmarks. We have challenged the valuer with KPMG's suite of benchmarks and property sale evidence, who updated their valuation as a result.
- Our audit work is completed. We have reassessed the gap between the updated valuation and KPMG's view, and it has now reduced to £5.3 million, which is less than agreed materiality level.
- We are finalising our work and the impact on the brought forward valuation from prior year and will provide a final update at the next Audit and Governance Committee, and in advance of signing

Key:
 Prior year  Current year

Audit risks and our audit approach



3

Management override of controls^(a)

Fraud risk related to unpredictable way management override of controls may occur



Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.



Our response

Our audit methodology incorporates the risk of management override as a default significant risk.

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluated the selection and application of accounting policies.
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the Council's normal course of business, or are otherwise unusual.
- We analysed all journals through the year using data and analytics and focus our testing on those with a higher risk, such as unusual journal entries to cash, revenue, expenditure and borrowings.
- We tested post-closing journals which has material balance and / or meet high risk criteria specified above.



Audit risks and our audit approach (cont.)



3

Management override of controls(cont.)^(a)

Fraud risk related to unpredictable way management override of controls may occur



Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.



Our findings

- We assessed the significant qualitative aspects of the Council's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and did not identify any matters that we were required to bring to your attention.
- We identified 8 journal entries and other adjustments meeting our high-risk criteria – our examination did not identify any unauthorised, unsupported or inappropriate entries.
- We evaluated accounting estimates and did not identify any indicators of management bias. See slide 22 for further discussion.
- We did not identify any significant unusual transactions.
- We assessed the design and implementation of the control relating to journal entries. We do not plan to rely on journal control for audit procedures.
- Whilst this Management Review Control is achieving the control objective set by management and is deemed appropriate for the purpose at the Council, it does not meet the control requirements as defined by the FRC in its auditing standards. Management consider the existing controls to address the associated operational risk, and we have not raised a formal recommendation in this regard.

Audit risks and our audit approach

4 Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation



Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the [Council]'s pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.



Our response

We have performed the following procedures :

- Understood the processes the Council have in place to set the assumptions used in the valuation;
- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirmed that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice;
- Considered the adequacy of the Council's disclosures in respect of the sensitivity of the deficit to these assumptions;
- Assessed the change in the effect of the asset ceiling under IFRIC 14 over the year for reasonableness

Key:
 Prior year Current year

Audit risks and our audit approach (cont.)

Page 43

4 Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation



Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the [Council]'s pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our findings

- We concluded that controls in place to review the valuation were ineffective. Auditing standards requires controls to be designed with a certain level of recurrency and precision which is not part of management's process. We have not raised this as a formal deficiency as management acknowledge they do not possess the relevant actuarial skills to issue effective challenge and the risk of misstatement is reduced with the use of a competent specialist.
- We have assessed the overall assumptions used by management as balanced relative to our central rates and within our reasonable range. All individual assumptions were assessed as balanced and within our reasonable range except for discount rate (optimistic) and CPI inflation (cautious), but still within reasonable range. See page 19 for more detail.
- We have confirmed that the Fund's appointed actuaries, both individual and firm, hold appropriate professional qualifications, being Fellows of the Institute of Actuaries, and are therefore qualified to perform actuarial valuations and prepare IAS19 disclosure reports.
- We have assessed the change in the effect of the IFRIC 14 adjustments for the asset ceiling and minimum funding. We agree with management's conclusion and the application of IFRIC 14. This involves an independent recalculation of the closing position, P&L and OCI elements. Combined with all of the above, we are satisfied with the net liability reported.
- We have done our initial detailed review of the disclosures and management are currently processing these changes. As part of our review, it has been identified that there may be an inconsistency between the treatment of the pensions prepayment & how this is allocated between the service centres. We are currently working through this issue & we expect to feedback to management this month.
- Our remaining work on the inputs is in progress & we have no findings to report at this stage.

Key:
 Prior year  Current year

Note: (a) Significant risk that professional standards require us to assess in all cases.

Audit risks and our audit approach

5 Fraud risk from expenditure recognition

Revenue expenditure is incorrectly accounted for as capital additions due to fraud



Significant audit risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

The Council has a statutory duty to balance their annual budget. Where a Council/entity does not meet its budget this creates pressure on the Council's usable reserves and this in turn provides a pressure on the following year's budget. This is not a desirable outcome for management.

We consider this would be most likely to occur through understating accruals, for example to push back expenditure to 2025-26 to mitigate financial pressures.



Our response

We have performed the following procedures in order to respond to the significant risk identified:

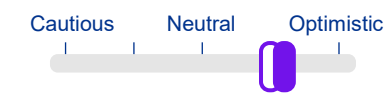
- We inspected a sample of invoices of expenditure, in the period around 31 March 2025, to determine whether expenditure has been recognised in the correct accounting period and whether accruals are complete;
- We selected a sample of year end accruals and inspect evidence of the actual amount paid after year end in order to assess whether the accruals have been accurately recorded;
- We inspected journals posted as part of the year end close procedures that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; and

Key:
0 Prior year 1 Current year

Audit risks and our audit approach (cont.)

5 Fraud risk from expenditure recognition (cont.)

Revenue expenditure is incorrectly accounted for as capital additions due to fraud



Significant audit risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

The Council has a statutory duty to balance their annual budget. Where a Council/entity does not meet its budget this creates pressure on the Council's usable reserves and this in turn provides a pressure on the following year's budget. This is not a desirable outcome for management.

We consider this would be most likely to occur through understating accruals, for example to push back expenditure to 2025-26 to mitigate financial pressures.

Our findings

- We sample tested accruals as part of year-end audit procedure and concluded that accruals are recognised appropriately with no indication of deferring expenditure to mitigate current year financial pressure;
- We inspected a number of invoices and cash payments, in the period around 31 March 2025, and determined that the expenditure had been recognised in the correct accounting period; and
- We identified and tested expenditure journals posted as part of the year end and found there was an appropriate basis for posting the journal and that the values agreed to supporting evidence
- We concluded that the expenditures are recognised in the appropriate accounting period.

Key:
 Prior year  Current year

Audit risks and our audit approach

6 Adoption of IFRS 16

An inappropriate amount is estimated and recorded for lease liabilities and right of use assets



Other audit risk

The Council has adopted IFRS 16 as per CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (2024/25) with an implementation date of 1 April 2024.

We anticipate the following challenges in the first year of implementation.

- Completeness of lease listing used in transition computations.
- Inadequate lease disclosures as per IFRS 16.
- Inaccurate computation of lease liabilities and right of use assets.
- Training needs for new/existing staff



Our response

We performed the following procedures in order to respond to the other audit risk identified:

- Obtained the full listings of leases and reconciled to the general ledger.
- Reviewed a sample of the lease agreements to determine the terms of the leases and confirmed correct classification.
- Reviewed the appropriateness of the discount rate used in the lease computations.
- Reviewed the transition adjustments passed by the Council
- Reviewed the disclosures made on the financial statements against requirements of IFRS16.

We have no issue to report based on our work performed to date.

Key:
 Prior year Current year

Audit risks and our audit approach

7 Non-capital expenditure is inappropriately recognised as capital



Other audit risk

Although we have rebutted the presumed significant risk in relation to fraudulent expenditure recognition, capital accounting requirements are complex and may contain an element of judgement in determining which costs in a project can be capitalised and which need to be expensed.

Given the size of the Council's capital programme (£59.2m 24/25), we have identified an Other Audit Risk regarding revenue expenditure being inappropriately recognised as capital expenditure.



Our response

We have performed the following procedures designed to specifically address this significant risk:

- We evaluated the design and implementation of controls for classifying expenditure as capital;
- We scanned the list of capital programmes for schemes which indicate an increased risk that the spend may be revenue in nature; and
- We tested a sample of capital expenditure incurred by the Council to ensure it is correctly capitalised.

We do not have anything significant to report in this regard. Our testing over capital expenditure incurred did not identify any capital expenditure inappropriately recognised.

Key:

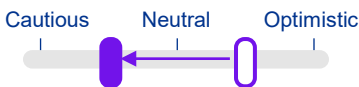
0 Prior year 1 Current year



Key accounting estimates and management judgements- Overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.



| Asset/liability class | Our view of management judgement | Balance (£m) | YoY change (£m) | Our view of disclosure of judgements & estimates | Further comments |
|--|---|--------------|-----------------|---|--|
| <div><div>Gross pension liabilities</div><div>LGPS funded & unfunded liabilities</div></div> | <div><div>Cautious</div><div>Neutral</div><div>Optimistic</div><div><div></div><div></div><div></div></div></div> | 585.1 | (75.4) | <div><div>Needs improvement</div><div>Neutral</div><div>Best practice</div><div><div></div><div></div><div></div></div></div> | We have assessed the overall assumptions used by management as balanced relative to our central rates and within our reasonable range. Other than the matters currently being investigated as detailed on page13, following our recommendations, the disclosures are in line with the requirements of the standard |
| <div><div>Other Land and Buildings</div><div>Valuation of specialised Assets</div></div> | <div><div>Cautious</div><div>Neutral</div><div>Optimistic</div><div><div></div><div></div><div></div></div></div> | 369.9 | 7.9 | <div><div>Needs improvement</div><div>Neutral</div><div>Best practice</div><div><div></div><div></div><div></div></div></div> | We utilised our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised. We concluded that the land, building and dwellings are valued on a neutral basis |
| <div><div>Investment Properties</div><div>Valuation of investment properties</div></div> | <div><div>Cautious</div><div>Neutral</div><div>Optimistic</div><div><div></div><div></div><div></div></div></div> | 57.3 | (0.3) | <div><div>Needs improvement</div><div>Neutral</div><div>Best practice</div><div><div></div><div></div><div></div></div></div> | Our revaluation specialist have assessed the valuation done by the external valuer and concluded the assumption used for valuation are optimistic. This result in an overstatement of £5.28m for investment properties. |

Key:
 Prior year Current year

Key accounting estimates and management judgements - Gross pension liabilities



| Overall assessment of assumptions for audit consideration | | | | | | | Balanced |
|---|---|--|---|---|---|------------|-----------------|
| Underlying assessment of individual assumptions | Methodology | Consistent methodology to prior year? | Compliant methodology with accounting standard? | Employer | KPMG | Assessment | Key assumptions |
| Discount rate | AA yield curve | ✓ | ✓ | 5.85% | 5.74% | | ✓ |
| CPI inflation | Deduction to inflation curve | ✓ | ✓ | 2.90% | 2.74% | | ✓ |
| Pension increases | In line with CPI | ✓ | ✓ | 2.90% | 2.96% | | |
| Salary increases | Employer best estimate | ✓ | ✓ | CPI plus 1% | In line with long-term remuneration policy | | |
| Mortality | Base tables | In line with most recent Fund valuation | ✓ | 110%/105% (Males/Females) of the SAPS Series 3 tables | In line with Fund best-estimate | | ✓ |
| | Future improvements | In line with most recent Fund valuation, updated to use latest CMI model | ✓ | CMI 2023, 1.25% long-term trend rate and default other parameters | CMI 2023, 1.25% long-term trend rate and default other parameters | | ✓ |
| Other demographics | In line with most recent Fund valuation | ✓ | ✓ | 50% of the maximum available tax-free cash on retirement | In line with Fund experience | | |

Other matters

Narrative report

We have read the contents of the Narrative Report and checked compliance with the requirements of the Annual Report and financial statements with the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 ('the Code'). Based on the work performed:

We have not identified any inconsistencies between the contents of the Narrative Report and the financial statements.

- We have not identified any material inconsistencies between the knowledge acquired during our audit and the statements of the Council. As Audit Committee members you confirm that you consider that the Narrative Report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council's performance, model and strategy.

Annual Governance Statement

We have reviewed the Council's 2024/25 Annual Governance Statement and confirmed that:

- It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Whole of Government Accounts

As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack.

As the National Audit Office has not yet concluded its audit of the Whole of Government Accounts for the 31 March 2025 financial year, we are unable to confirm that we have concluded our work in this area

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our scale fee for the 2024/25 audit, as set by PSAA is **£335k** plus VAT (£323k in 2023/24).

See page 29 for details and status of fee variations.

We have also completed non audit work at the Council during the year on the Council's Housing Benefit Annual return and have included on page 31 as part of the confirmation of safeguards that have been put in place to preserve our independence.



01

Value for money

Value for Money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor’s Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We have prepared our Auditor’s Annual Report and a copy of the report is included within the papers for the Committee alongside this report. The report is required to be published on your website alongside the publication of the annual report and accounts.

Response to risks of significant weaknesses in arrangements to secure value for money

As noted on the right, we have identified two risks of a significant weakness in the Council’s arrangements to secure value for money. On the pages overleaf we have set out the risks, our response and findings.

As a result of the work, we have identified a significant weakness in governance.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

| Domain | Risk assessment | Summary of arrangements |
|---|----------------------------------|--------------------------------------|
| Financial sustainability | One significant risks identified | No significant weaknesses identified |
| Governance | No significant risks identified | Significant weaknesses identified |
| Improving economy, efficiency and effectiveness | One significant risks identified | No significant weaknesses identified |

Further detail is set out in our Auditor’s Annual Report.

As part of our work, we have identified one significant weakness on page 25.

We have also followed up one recommendation in the prior year on page 16

Risk of significant weakness



1

Budget deficit 2024/25

Risk that value for money arrangements may contain a significant weakness linked to Financial Sustainability

Significant Value for Money Risk

The 2024/25 outturn suggests a £9.3 million adverse variance to Budget. Large budget deficits can be an indication of weakness in arrangements around financial sustainability.

Our response

We performed the following procedures:

1. Consider the Council's arrangements and structures to monitor and deliver a balanced budget;
2. Understand the process for identifying savings and other available levers to the Council;
3. Review recent budget monitoring and performance throughout the period to date; and
4. Conduct interviews with senior management to understand the feasibility of on-going recovery plans and measures to support financial sustainability.

Our findings

Findings

The Council set a balanced budget for the 24/25 financial year with total assumed savings in the budget of £8.5 million. As at end of 24/25, 73% of the total identified savings were achieved with an adverse net variance of £9.3 million. DSG deficit was £24.9m which is lower than the estimate of £26.5m per 24/25 MTFS. This gives us assurance that management recognised the scale of DSG appropriately. At 31/3/25 the Council has total general fund reserves of £49m.

The 2025/26 budget is balanced by an overall £3.9m assumed draw down on earmarked reserves. We inspected the latest report taken to the Policy Committee in September 2025, which reported an overspend of approximately £4.2 million. Whilst the financial position is in financial pressure the Council does acknowledge the risk and has identified financial pressures as a significant risk, which drives regularly performance monitoring.

The Council is also looking for savings to bring the deficit under control and is regularly monitoring the position.

The situation with RBC is not unique and many other authorities are in a similar financial position. We recognised the financial pressure as significant risk over the financial sustainability but do not consider this is a significant weakness as this risk is acknowledged and monitored by the Council with clear action plan to bridge the gap.

Conclusion

Based on the findings above we have not identified any significant weaknesses in arrangements.

Risk of significant weakness



2

Regulator reporting identified weaknesses

Risk that value for money arrangements may contain a significant weakness linked to Economy, Efficiency and Effectiveness

Significant Value for Money Risk

The recent challenging reporting from Ofsted and the Regulator of Social Housing indicates that there is a risk that the Council does not have in place adequate arrangements to achieve economy, efficiency and effectiveness of services in the period.

Our response

We performed the following procedures:

1. Consider the recent reports and receive and evaluate other 24/25 reports when they are able to be provided;
2. Investigate and challenge management as to the drivers behind the reports and arrangements currently in place; and
3. Understand management's response to the reports, the action plan and future proposed arrangements.

Our findings

Findings

A Joint Targeted Area Inspection (JTAI) significant weaknesses in the multi-agency approach to prevention, help and support for children and their families who are victims of domestic abuse in Reading.

We have inspected the papers and progress report taken to Audit Social Care, Children's Services and Education Committee and confirmed an action plan is in place and progress is closely monitored following the publication of the inspection report in May. We do not consider this is a significant weakness in improving economy, efficiency and effectiveness as the Council has a detailed plan in place and monitor the implementation of action plan on a regular basis.

However, we consider this as a significant weakness in governance because no evidence of the Council identifying and attempting to mitigate risks in advance of the report. Hence, we considered this is an indication of lack scrutiny and consider it as significant weakness in governance.

We inspected the reports from the Regulators of Social Housing where a C3 rating was given due to the concerns regarding areas such as health and safety and transparency.

Following our inspection of reports taken to the Housing, Neighbourhoods and Leisure Committee we concluded that although there were weaknesses identified in the inspection, RBC had already identified the majority of the issues and had active action plans in place at the time of the visit. Delivery against these action plans has been monitored at each committee.

We also inspected the CQC inspection report regarding adult social care and the council's risk register. We confirmed that the Council have identified and attempted to mitigate the risk in advance of the report.

Conclusion

We do not consider there is a significant weakness in improving economy, efficiency and effectiveness as we have seen action plans the council have in place and evidence for monitoring the implementation of action plans.

However, we have determined that there is a significant weakness in governance as we do not see evidence of the Council identifying and attempting to mitigating risks in advance of the JTAI report.

Value for Money: Recommendations



The recommendations raised as a result of our work in respect of significant value for money weaknesses in the current year are as follows:

| # | Issue, Impact and Recommendation | Management Response/Officer/Due Date |
|---|---|--|
| 1 | <p>Issue</p> <p>A Joint Targeted Area Inspection identified significant weaknesses in the multi-agency approach to prevention, help and support for children and their families who are victims of domestic abuse in Reading.</p> <p>While we appreciate that some of the issues identified were known by the Council and were being worked upon by the Council, some of them were not which raises questions regarding the underlying risk management arrangements and escalation of risk.</p> <p>We note that RBC have responded well to the findings of the report, and a detailed action plan is in place to respond to the failings and this is being effectively monitored.</p> <p>Impact</p> <p>A lack of effective oversight may lead to the council failing to deliver services efficiently. This could also expose the council to increased financial pressures and result in significant legal or reputational consequences.</p> <p>Recommendation</p> <p>We recommend that the council:</p> <ul style="list-style-type: none">• continue to implement the agreed action plan and closely monitor progress against the plan;• Revisit their risk management arrangements in light of the report to understand how these issues were not highlighted, risk assessed and escalated sooner and in advance of the report being issued• Use the findings from this review to look across to other services across the Council that may have similar failings that are continuing without the appropriate scrutiny or support | <p>The multi-agency focus on safeguarding as reviewed through the JTAI inspection includes a number of formal reporting channels where issues can be escalated and shared. This, together with the actions already in place following the inspection will be reviewed to ensure any underlying risk trends can be identified early, reported to Lead Safeguarding Partners and management action taken accordingly.</p> <p>Officer Responsible: Director of Children's Services</p> <p>Due Date: 31/3/26</p> |

Value for Money: Recommendations



Below we have set out our findings from following up recommendations raised in respect of significant weaknesses identified in prior periods:









| # | Issue, Impact and Recommendation | Management Response/Officer/Due Date | Update as of October 2025 |
|---|--|---|---|
| 1 | <p>Issue</p> <p>As part of the financial statements audit and internal audit's annual assurance report, deficiencies were found in the Employee Gifts & Hospitality and Declarations of Interest register.</p> <p>Impact</p> <p>The Council may be vulnerable to conflicts of interest. There is a risk of undue influence over decisions where undeclared interests, gifts or hospitality are not identified. This also exposes the Council to accusations of undue influence, where decisions are made without these considerations, regardless of whether this has or has not been exercised.</p> <p>Recommendation</p> <p>The Council should apply a more rigorous approach to declarations of interests and gifts & hospitality, with centralised and regularly updated/reviewed registers.</p> <p>To ensure these are kept up-to-date, these could be tracked through the Audit and Governance Committee.</p> | <p>The Council will review and improve the arrangements for managing Employee Gifts & Hospitality and the Declarations of Interest register. Progress on implementing audit findings will continue to be included in regular performance reports to the Audit and Governance Committee.</p> <p>Officer: Monitoring Officer</p> <p>Due Date: 31/3/25</p> | <p>The Council has updated its Gifts and Hospitality Policy which is available on the Council's intranet site. New processes are in place and communicated to all staff.</p> <p>We have obtained the recent internal audit report which suggests inconsistency still remains. Hence we keep this recommendation open.</p> |
| 2 | | | |







Appendix

Contents

| | Page |
|---------------------------------|------|
| Required communications | 28 |
| Fees | 29 |
| Confirmation of Independence | 30 |
| Uncorrected audit misstatements | 33 |
| Control Deficiencies | 34 |
| FRC's areas of focus | 37 |
| KPMG's Audit quality framework | 40 |

Required communications

| Type | Response |
|--|--|
| Our draft management representation letter |  We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2025 |
| Adjusted audit differences |  There were nil adjusted audit differences based on our work to date. |
| Unadjusted audit differences |  The aggregated surplus impact of unadjusted audit differences would be £0.8m. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 32 |
| Related parties |  There were no significant matters that arose during the audit in connection with the entity's related parties. |
| Other matters warranting attention by the Audit Committee |  There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process. |
| Control deficiencies |  We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing on 16 July 2025. |
| Actual or suspected fraud, noncompliance with laws or regulations or illegal acts |  No actual or suspected fraud involving Council management, employees with significant roles in the council internal control, or where fraud results in a material misstatement in the financial statements identified during the audit. |
| Issue a report in the public interest |  We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters. |

| Type | Response |
|---|--|
| Significant difficulties |  No significant difficulties were encountered during the audit |
| Disagreements with management or scope limitations |  The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit. |
| Other information |  No material inconsistencies were identified related to other information in the statement of accounts. |
| Breaches of independence |  No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. |
| Accounting practices |  Over the course of our audit, we have evaluated the appropriateness of the Council 's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. |
| Whole of government accounts |  As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack. We are yet to receive instructions from NAO regarding WGA. |



Fees

Audit fee

Our fees for the year ending 31 March 2025 are set out in the PSAA Scale Fees communication and are shown below.

| Entity | 2024/25 (£'000) | 2023/24 (£'000) |
|--------------------------------|-----------------|-----------------|
| Scale fee as set by PSAA | 335 | 296 |
| Fee variation approved by PSAA | - | 24 |
| Other fee variations | TBC | 3 |
| TOTAL | 335 | 323 |

Fee variations

We expect to raise fee variations with he PSAA for items not included within the above scale fee. This year, these will include:

- IFRS 16 Leases – additional work on adoption of standard
- VFM – additional work regarding risk of significant weakness
- Opinion modification – Like last year, additional review regarding the modification of our opinion

We will also bill separately for any building back assurance work required in order to gain assurance on the opening position. We will update this position in the new year.

Billing arrangements

Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

Basis of fee information

Our fees are subject to the following assumptions:

- The Council's audit evidence files are completed to an appropriate standard (we will liaise with you separately on this);
- Draft statutory accounts are presented to us for audit subject to audit adjustments;
- Supporting schedules to figures in the accounts are supplied;
- The Council's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

Any variations to the above plan will be subject to the PSAA fee variation process

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of [entity name]

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity [except for those detailed below where additional safeguards are in place].

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out on the table overleaf.

Confirmation of Independence (cont.)

| Disclosure | Description of scope of services | Principal threats to Independence | Safeguards Applied | Basis of fee | Value of Services Delivered in the year ended 31 March 2025 £k | Value of Services Committed but not yet delivered £k |
|------------|-------------------------------------|--|--|--------------|---|---|
| 1 | Housing benefit grant certification | Management Self review Self interest | <ul style="list-style-type: none"> Standard language on non-assumption of management responsibilities is included in our engagement letter. The engagement contract makes clear that we will not perform any management functions. The work is performed after the audit is completed and the work is not relied on within the audit file. Our work does not involve judgement and are statements of fact based on agreed upon procedures. | Fixed | 0 | 34.75 |
| 2 | Teachers Pensions certification | Management Self review Self interest | <ul style="list-style-type: none"> Standard language on non-assumption of management responsibilities is included in our engagement letter. The engagement contract makes clear that we will not perform any management functions. The work is performed after the audit is completed and the work is not relied on within the audit file. Our work does not involve judgement and are statements of fact based on agreed upon procedures. | | 8.4 | 0 |
| 3 | Capital Pooling Grant | Management Self review Self interest | <ul style="list-style-type: none"> Standard language on non-assumption of management responsibilities is included in our engagement letter. The engagement contract makes clear that we will not perform any management functions. The work is performed after the audit is completed and the work is not relied on within the audit file. Our work does not involve judgement and are statements of fact based on agreed upon procedures. | | 7.5 | 0 |

Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Group and its affiliates for professional services provided by us during the reporting period.

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.15: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

| | 2024/25 |
|--------------------------|------------|
| | £'000 |
| Scale fee | 335 |
| Other Assurance Services | 51 |
| Total Fees | 386 |

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Risk Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Risk Committee of the Group and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Uncorrected audit misstatements

Given we are disclaiming our audit opinion as described on page 4 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported uncorrected audit misstatements that we have identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit & Governance Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit & Governance Committee, details of all adjustments greater than £550K are shown below:

| Uncorrected audit misstatements (£'000s) | | | | |
|--|--|--------------|-----------------------|--|
| No. | Detail | CIES Dr/(cr) | Balance Sheet Dr/(cr) | Comments |
| 1 | Dr Accruals | - | £768,515 | Over accrued rent received by RBC on behalf of Homes For Reading (subsidiary). |
| | Cr Service expenditure | (£768,515) | | |
| 2 | Dr. Financing and Investment income and expenditures | £5,280,000 | - | Overstatement of investment property due to the valuation being optimistic |
| | Cr. Investment properties | | (£5,280,000) | |
| Total | | £4,511,485 | (£4,511,485) | |

Control Deficiencies

Although we are disclaiming our audit opinion we have also follow up the recommendations from the previous years audit, in summary:

| Total number of recommendations | Number of recommendations implemented | Number outstanding (repeated below): |
|---------------------------------|---------------------------------------|--------------------------------------|
| 4 | 3 | 1 |

| # | Risk | Issue, Impact and Recommendation | Management Response/Officer/Due Date | Current Status (November 2025) |
|---|------|---|---|---|
| 1 | 2 | <p>Irregular collation of declarations of interest and gifts & hospitality</p> <p>We were unable to evidence a centralised register for declarations of interest and gifts & hospitality. We also noted a declaration of interest was missing for one of the members of the Corporate Management Team.</p> <p>There is a risk of undue influence over decisions where interests, gifts or hospitality has not been identified or declared. The Council may be vulnerable to perceived or actual conflicts of interest.</p> <p>Recommendation</p> <p>The Council should apply a more rigorous approach to declarations of interests and gifts & hospitality, with centralised and regularly updated/reviewed registers.</p> <p>To ensure these are kept up-to-date, these could be tracked through the Audit and Governance Committee.</p> | <p>The Council will review and improve the arrangements for managing Employee Gifts & Hospitality and the Declarations of Interest register. Progress on implementing audit findings will continue to be included in regular performance reports to the Audit and Governance Committee.</p> <p>Officer: Monitoring Officer</p> <p>Due Date: 31/3/25</p> | <p>In progress</p> <p>The Council has updated its Gifts and Hospitality Policy which is available on the Council's intranet site. New processes are in place and communicated to all staff.</p> <p>We have obtained the recent internal audit report which suggests inconsistency still remains. Hence we keep this recommendation as outstanding.</p> |

Control Deficiencies (Count.)

Although we are disclaiming our audit opinion we have also follow up the recommendations from the previous years audit, in summary:

| # | Risk | Issue, Impact and Recommendation | Management Response/Officer/Due Date | Current Status (November 2025) |
|---|------|---|---|---|
| 2 | 2 | <p>Limited management review of property valuation</p> <p>We were unable to evidence management review or challenge of the assumptions used in the valuer's calculations. We also experienced some difficulty in evidencing the relevant data inputs into the valuer's calculation, which ideally should be readily available from the Council, who provide these to the valuer.</p> <p>There is a risk that material errors in the valuation would not be identified, resulting in significant changes to the accounts in future periods and/or properties that no longer exist or are erroneously classified will be revalued.</p> <p>Recommendation</p> <p>We recommend that management and the relevant internal experts challenge and retain evidence of this challenge as part of the annual valuation process.</p> <p>We also recommend that the discussions regarding the progress of assets under the course of construction is documented as at the year end.</p> | <p>The Council provided working papers to demonstrate our review of the Valuations , both Dwellings and Non Dwellings which resulted in changes to the Valuations from the initial draft presented by the Council's valuers and the amount recorded in the Council's accounts. This included copies of emails confirming the agreed actions following review meetings.</p> <p>The Council also provided a detailed working paper demonstrating our review of every balance within the 'Assets Under Construction' category at the year end.</p> <p>The Council considers the exchange of emails documenting agreed actions and changes in valuations as the most cost-effective method of documenting that management has challenged the work of experts.</p> | <p>Implemented</p> <p>In 24/25 we have seen the documentation for the review of valuation and challenge to the valuer. The Council's internal valuers (RICS qualified) attended the valuation call as part of the year-end review process. Therefore, we considered the management review of property valuation is sufficient and meet the criteria for management review control.</p> |
| 3 | 2 | <p>Segregation of Duty for Journal posting</p> <p>The Council's general ledger allows journals posted by certain finance staff to be self authorised, thereby not enforcing segregation of duties. Oracle and now e5 system also allows an approver to override a journal created by someone else, therefore making the approver both the creator and approver. These are inherent weaknesses in both the systems.</p> <p>Recommendation</p> <p>We recommend that the Council reviews the above and ensures that the risk of an incorrect journal being posted is reduced</p> | <p>As reported in the previous year, users cannot authorise their own journals in the finance system. This control was maintained throughout the year (as it was for the previous financial year) and is managed by a technical setting on the batch type that controls self-authorisation – this function is turned off for all batch types which includes journal postings.</p> | <p>Implemented</p> <p>Through our journal process walkthrough and discussion with the Financial Systems Implementation Consultant, we understand that E5 now track all changes made to journals which automatically prevent people who edited journal from authorising the journal. Therefore, people can not be both approver and creator for the same journal.</p> |





Control Deficiencies (Count.)

Although we are disclaiming our audit opinion we have also follow up the recommendations from the previous years audit, in summary:

| # | Risk | Issue, Impact and Recommendation | Management Response/Officer/Due Date | Current Status (November 2025) |
|---|------|---|--|---|
| 4 | 2 | <p>Outdated treasury records for bank authorization</p> <p>We identified treasury records for bank authorizations were not up to date which led to delay in raising and receipt of bank confirmations. Additionally, we identified missing bank reconciliations for Impress accounts and bank accounts expected to be closed. Multiple bank accounts for same school were mapped to different project codes.</p> <p>Recommendation</p> <p>We therefore recommend to review and update treasury authorizations records at least once every quarter. Establish a clear policy for handling bank accounts being closed. Provide confirmations from the bank regarding closure status and collect all relevant information. Standardise the project coding system to ensure each school is assigned a unique project code. Use a centralised database to map each school's bank accounts to a single project code. Conduct regular audits and reconciliations</p> | <p>This recommendation has been fully implemented, and the Council has processes in place to sustain this control measure looking forward.</p> | <p>Implemented</p> <p>We noted through our bank confirmation testing for 24/25 that all treasury record are up to date and as a result we are able to obtained all bank confirmation for 24/25. T</p> <p>Therefore, we considered this recommendation is fully implemented</p> |



FRC's areas of focus

The FRC released their **Annual Review of Corporate Reporting 2023/24** ('the Review') in **September 2024** having already issued three thematic reviews during the year.

The Review and thematic reviews identify where the FRC believes companies can improve their reporting. These slides give a high level summary of the key topics covered. We encourage management and those charged with governance to read further on those areas which are significant to their entity.



Key expectations for 2024/25 annual reports

Overview

The Review identifies that the quality of reporting across FTSE 350 companies has been maintained this year, but there is a widening gap in standards between FTSE 350 and non-FTSE 350 companies. This is noticeable in the FRC's top two focus areas, 'Impairment of assets' and 'Cash Flow Statements'.

'Provisions and contingencies' has fallen out of the top ten issues for the first time in over five years. This issue is replaced by 'Taskforce for Climate-related Financial Disclosures (TCFD) and climate-related narrative reporting'.

The FRC re-iterates that companies should apply careful judgement to tell a consistent and coherent story whilst ensuring the annual report is clear, concise and Council/Authority-specific.

Pre-issuance checks and restatements

The FRC expects companies to have in place a sufficiently robust self-review process to identify common technical compliance issues. The FRC continues to be frustrated by the increasing level of restatements affecting the presentation of primary statements. This indicates that thorough, 'step-back' reviews are not happening in all cases.

Risks and uncertainties

Geopolitical tensions continue and low growth remains a concern in many economies, particularly with respect to going concern, impairment and recognition/recoverability of tax assets and liabilities. The FRC continues to push for enhanced disclosures of risks and uncertainties. Disclosures should be sufficient to allow users to understand the position taken in the financial statements, and how this position has been impacted by the wider risks and uncertainties discussed elsewhere in the annual report.

Financial reporting framework

The FRC reminds preparers to consider the overarching requirements of the UK financial reporting framework in determining the information to be presented. In particular the requirements for a true and fair view, along with a fair, balanced, and comprehensive review of the Council/Authority's development, position, performance, and future prospects.

The FRC does not expect companies to provide information that is not relevant and material to users, and companies should exercise judgement in determining what information to include.

Companies should also consider including disclosures beyond the specific requirements of the accounting standards where this is necessary to enable users to understand the impact of particular transactions or other events and conditions on the entities financial position, performance and cash flows.

FRC's areas of focus (cont.)

Impairment of assets

Impairment remains a key topic of concern, exacerbated in the current year by an increase in restatements of parent Council/Authority investments in subsidiaries.

Disclosures should provide adequate information about key inputs and assumptions, which should be consistent with events, operations and risks noted elsewhere in the annual report and be supported by a reasonably possible sensitivity analysis as required.

Forecasts should reflect the asset in its current condition when using a value in use approach and should not extend beyond five years without explanation.

Preparers should consider whether there is an indicator of impairment in the parent when its net assets exceed the group's market capitalisation. They should also consider how intercompany loans are factored into these impairment assessments.

Cash flow statements

Cash flow statements remain the most common cause of prior year restatements.

Companies must carefully consider the classification of cash flows and whether cash and cash equivalents meet the definitions and criteria in the standard. The FRC encourage a clear disclosure of the rationale for the treatment of cash flows for key transactions.

Cash flow netting is a frequent cause of restatements and this was highlighted in the ['Offsetting in the financial statements'](#) thematic.

Preparers should ensure the descriptions and amounts of cash flows are consistent with those reported elsewhere and that non-cash transactions are excluded but reported elsewhere if material.

Climate

This is a top-ten issue for the first time this year, following the implementation of TCFD.

Companies should clearly state the extent of compliance with TCFD, the reasons for any non-compliance and the steps and timeframe for remedying that non-compliance. Where a Council/Authority is also applying the CIPFA Climate-related Financial Disclosures, these are mandatory and cannot be 'explained', further the required location in the annual report differs.

Companies are reminded of the importance of focusing only on material climate-related information. Disclosures should be concise and Council/Authority specific and provide sufficient detail without obscuring material information.

It is also important that there is consistency within the annual report, and that material climate related matters are addressed within the financial statements.

Financial instruments

The number of queries on this topic remains high, with Expected Credit Loss (ECL) provisions being a common topic outside of the FTSE 350 and for non-financial and parent companies.

Disclosures on ECL provisions should explain the significant assumptions applied, including concentrations of risk where material. These disclosures should be consistent with circumstances described elsewhere in the annual report.

Council/Authority should ensure sufficient explanation is provided of material financial instruments, including Council/Authority -specific accounting policies.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

Judgements and estimates

Disclosures over judgements and estimates are improving, however these remain vital to allow users to understand the position taken by the Council/Authority. This is particularly important during periods of economic and geopolitical uncertainty.

These disclosures should describe the significant judgements and uncertainties with sufficient, appropriate detail and in simple language.

Estimation uncertainty with a significant risk of a material adjustment within one year should be distinguished from other estimates.

Further, sensitivities and the range of possible outcomes should be provided to allow users to understand the significant judgements and estimates.



FRC's areas of focus (cont.)

Revenue

Disclosures should be specific and, for each material revenue stream, give details of the timing and basis of revenue recognition, and the methodology applied. Where this results in a significant judgement, this should be clear.

Presentation

Disclosures should be consistent with information elsewhere in the annual report and cover Council/Authority - specific material accounting policy information.

A thorough review should be performed for common non-compliance areas of IAS 1.

Income taxes

Evidence supporting the recognition of deferred tax assets should be disclosed in sufficient detail and be consistent with information reported elsewhere in the annual report.

The effect of Pillar Two income taxes should be disclosed where applicable.

Strategic report

The strategic report must be 'fair, balanced and comprehensive'. Including covering all aspects of performance, economic uncertainty and significant movements in the primary statements.

Companies should ensure they comply with all the statutory requirements for making distributions and repurchasing shares.

Fair value measurement

Explanations of the valuation techniques and assumptions used should be clear and specific to the Council/Authority.

Significant unobservable inputs should be quantified and the sensitivity of the fair value to reasonably possible changes in these inputs should provide meaningful information to readers.

Thematic reviews

The FRC has issued three thematic reviews this year: 'Reporting by the UK's largest private companies' (see below), 'Offsetting in the financial statements', and 'IFRS 17 Insurance contracts –Disclosures in the first year of application'. The FRC have also performed Retail sector research (see below).

UK's largest private companies

The quality of reporting by these entities was found to be mixed, particularly in explaining complex or judgemental matters. The FRC would expect a critical review of the draft annual report to consider:

- internal consistency
- whether the report as a whole is clear, concise, and understandable; notably with respect to the strategic report
- whether it omits immaterial information, or
- whether additional information is necessary for the users understanding particularly with respect to revenue, judgments and estimates and provisions







Retail sector focus

Retail is a priority sector for the FRC and the research considered issues of particular relevance to the sector including:

- Impairment testing and the impact of online sales and related infrastructure
- Alternative performance measures including like for like (LFL) and adjusted e.g. pre-IFRS 16 measures
- Leased property and the disclosure of lease term judgements, particularly for expired leases.
- Supplier income arrangements and the clarity of accounting policies and significant judgements around measurement and presentation of these.

2024/25 review priorities

The FRC has indicated that its 2024/25 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

- | | | |
|--|--|--|
|  Industrial metals and mining |  Construction and materials |  Food producers |
|  Retail |  Gas, water and multi-utilities |  Financial Services |

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight (and Risk) Committee, and accountability is reinforced through the complete chain of command in all our teams.

■ Commitment to continuous improvement

- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

■ Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

■ Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



■ Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

■ Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

■ Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members



kpmg.com/uk

This page is intentionally left blank