

**Reading Borough
Council
Draft Audit results
report**

Year ended 31 March 2018

10 July 2020

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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10 July 2020



Dear Audit Committee Members

We are pleased to attach our draft audit results report for the forthcoming meeting of the Audit & Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Reading Borough Council for 2017/18. We will issue our final report at the conclusion of the audit.

Background and context - It is important that we set out the background and context to the 2017/18 audit. The previous audit year, 2016/17, was challenging for the Council, our audit opinion was qualified in four areas, Debtors, Creditors, I&E and Pensions, the value for money conclusion was an adverse report and we issued statutory recommendations to the Council highlighting areas for improvement. It took well over two years to complete the work on the 2016/17 statements due to the issues identified and the opinion was issued in July 2019.

There have been a number of changes implemented to address our recommendations in relation to processes, documentation and controls and there have also been a number of new appointments during 2017/18 and to date. Due to the fact that the 2017/18 year was well underway whilst these changes were being implemented, the issues arising were not addressed by the 2017/18 year end. Therefore this report also highlights a number of matters where improvements were not yet embedded by 31 March 2018. We expect to see the improvements reflected in the 2018/19 financial statements.

Timelines - Given the timing of this report the Authority has significantly missed the deadline for certification of the accounts. This is due to the extensive delays in certifying the 2016/17 accounts which were signed off in July 2019 and which therefore significantly missed the deadline of 30 September 2018. The changes to date are reflected in the positive improvement in timescales and the 2017/18 audit has taken a year to complete which is a significant improvement on the 2016/17 audit. In addition the 2018/19 statements are ready for us to begin our audit once we have completed our work in 2017/18. We also expect to complete the work on 2018/19 in a shorter timescale again to help the Council get back on track in relation to the timing of the audit cycle.

Current position - We are making good progress in our audit of Reading Borough Council for the year ended 31st March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue a qualified audit opinion on the financial statements. At this stage we have left Section 3 blank as we have not yet concluded on the wording of the audit opinion but it will be included at Section 3 in the final draft of this report once the work has all been completed. We also have matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit & Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent. We welcome the opportunity to discuss the contents of this report with you at the Audit & Governance Committee meeting on 14 July 2020. We would like to thank your staff for their help during the engagement.

Yours faithfully

Maria Grindley

Associate Partner, For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 27 January 2020 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Update on materiality:

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £5.254 m, with performance materiality, at 50% of overall materiality, of £2.627 m, and a threshold for reporting misstatements of £0.265 m. This level of materiality remains appropriate for the actual results for the financial year. The basis of our assessment has remained consistent with prior years at 1% of gross expenditure on provision of services. As we already had received the draft unaudited financial statements at the date of our Audit Planning Report this has remained consistent throughout the audit. We will update our final materiality on receipt of the final signed audited financial statements to determine that our audit testing has been appropriate.

Group Scoping:

There has been no changes to report in our Group Scoping. For the purposes of in-scope components Reading Transport Limited (RTL) is in-scope.

Covid-19

We are reviewing the implications of Covid-19 on the audit in relation to the Council's assessment of going concern and post balance sheet events.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

Status of the audit

We are making good progress in our audit of Reading Borough Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Planning Report.

A key element within this to bring to your attention is the impact of coronavirus (COVID-19) on the Council's going concern assessment and post balance sheet event disclosures. This is a new issue that the Council will need to be reflected in their financial statements.

Subject to satisfactory completion of the outstanding matters set out in Appendix D we expect to issue a qualified opinion on the Authority's financial statements. Once we have completed our procedures we will add in a draft auditor report in Section 3.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Reading Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues;
- ▶ You agree with the resolution of the issue; and
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit & Governance Committee.

Audit differences

We have no identified uncorrected adjustments greater than our reporting thresholds as at date of Audit & Governance Committee.

We have identified audit differences with an aggregated impact of £56.828m which have been adjusted by management (subject to receipt and review of the final statement of accounts). Details can be found in Section 4 Audit Differences.

As we are still concluding a number of areas it is possible that further adjustments may arise.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

During the audit we identified a number of observations and improvement recommendations in relation to management's financial processes and controls. These are set out in Section 7 of this report.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risk:

In February 2017 we issued Section 24 Schedule 7(2) Statutory Recommendations covering a number of areas. In 2016/17 the value for money conclusion was qualified due to the issues arising and identified in our report.

Whilst we can see progress being made and changes coming through at the Council, a number of the issues in our report and covered by the recommendations still existed during the 2017/18 financial year. We therefore need to consider what progress was made during the year and the impact on our report.

We have the following matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources for the 2017/18 year.

1) Informed Decision Making:

i) In 2016/17 we reported concerns around the reliability of financial management and reporting. We concluded that in 2017/18 this had improved and the Council had managed its financial performance in a more controlled manner resulting in an underspend of £5m against its core revenue budget which in turn supported an increase in the size of usable General Fund balances.

ii) In 2016/17 we also raised significant findings in respect of the system of internal control in effect at the Council. This focused specifically on concerns around the completion of key reconciliations and the lack of controls around journals. Whilst there was some improvement in respect of addressing these deficiencies this was not consistent or timely in 2017/18 to ensure that all noted deficiencies could be corrected. As a result this finding is noted as not having been fully corrected in 2017/18 with many of the changes not taking effect until late during 2017/18.

2) Sustainable Resource Deployment:

i) In August 2016 Ofsted reported significant findings in respect of the provision of Children's services at Reading Borough Council. Given their significance this impacted on our value for money conclusion in 2016/17. We committed to following up on this area in 2017/18. We reviewed the subsequent Ofsted inspection reports for 2017/18 and noted that despite pockets of improvement the consistent tone of the messaging in 2017/18 was still one which continued to raise concerns. Given the lack of sustained improvement and the continued concerns of the regulator this has therefore again impacted on our conclusions regarding the sustainable resource deployment sub-criteria.

Further details on our assessment of value for money can be found at section 5.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We are normally required to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. Our work in this area is not concluded. Given the delay in the certification of the audit we will need to understand what is required. We will report any matters arising to the Audit Committee via our Annual Audit Letter.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence.

Communications

Throughout the year we have attended the Audit & Governance Committee., presenting reports as appropriate. We also ran an Audit & Governance Committee. workshop at the beginning of the audit to talk through the audit approach in more detail and we have also met with the management team multiple times throughout the audit to discuss audit progress and rising findings.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

For Reading Borough Council, we consider this risk to be present in:

- Additions to property, plant and equipment; and
- Inappropriate transfers between the Housing Revenue Account (HRA) and the General Fund.

We have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Authority's capital programme. In addition there is a risk where transfers between the HRA and general result in incorrect treatment of HRA revenue expenditure.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure, including classification between the General Fund and Housing Revenue Account.

What did we do?

We sample tested additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

What are our conclusions?

Our testing is complete and in final review stage and the following is our current conclusion but may change as we complete our final procedures.

We have not identified any issues with management's accounting policies or practices in relation to opting to finance expenditure from capital sources.

We focused our testing on property, plant and equipment, investment property, and REFCUS capital additions.

Our testing of capital additions identified no instances where expenditure had been inappropriately capitalised, or any inappropriate transfers between the Housing Revenue Account and the General Fund.





Areas of Audit Focus

Significant risk

Impact of Qualified Accounts from 2016/17 - Income and Expenditure, Debtors and Creditors, and IAS 19 Pension Assets

What is the risk?

The 2016/17 audit was significantly delayed due to significant internal control issues identified as part of the audit. As a result the certification date of 30th September 2017 was missed with final certification on the audit taking place in July 2019. The audit opinion was also qualified across the key significant accounts: Income and Expenditure; Debtors; Creditors; and Pensions (IAS 19) Scheme Assets.

These specific accounts were qualified in 2016/17 as we were unable to obtain sufficient appropriate audit evidence to confirm that these accounts were materially correct. We will need to consider these accounts again as part of the 2017/18 audit. We would also note that where any of these accounts have a Balance Sheet impact then we would also need to qualify the opening balances as part of the 2017/18 audit given the fact that we were unable to satisfy ourselves on the material nature of the closing 2016/17 balances.

What judgements are we focused on?

Our judgements are focused specifically on the closing balances from the qualified accounts in 2016/17 accounts and the potential need to qualify the corresponding opening balances carried forward in the 2017/18 accounts. Income and Expenditure account balances do not carry forward in the same way that balance sheet items (debtors and creditors) do for example. Our judgements were therefore focused on this distinction.

What did we do?

We reviewed any brought forward closing balances from 2016/17 which had an associated qualification and we considered the impact on qualification of opening balances for 2017/18 where appropriate.

We designed our substantive testing procedures to understand how we can test these balances and obtain the appropriate audit evidence required. This involved testing at appropriate thresholds which reflected the increased risk profile of these accounts and the associated significant risk.

On specific areas of Income and Expenditure testing we disaggregated the balances to isolate specific accounts to see if we could obtain the relevant assurance.

What are our conclusions?

On completion of our audit we will need to consider these specific areas and the implications on the auditor report. We then need to formally consult on the proposed qualification on opening balances on debtors and creditors given the qualification on these accounts in 2016/17 and the inherent nature of these accounts forming the opening balances for these accounts in 2017/18. We will also need to consider whether we have enough assurance on Income and Expenditure and IAS19 for the 2017/18 opinion.

We will seek representations from management as to what they have done to ensure the validity of opening balances on debtors and creditors specifically and the recoverability or obligation on all such balances.

Significant Risk



Areas of Audit Focus

Significant risk

IAS 19 Assurance Process, Pension liabilities and the IAS 19 valuations

What is the risk?

As part of the formal protocol between the auditors of local government Pension Funds and the auditors of local government admitted member bodies to the Pension Fund a formal letter is issued to the auditor of the Pension Fund by the auditor of the admitted body requesting a programme of work and testing to be undertaken and formally reported back.

For the period in question (i.e. 1 April 2017 to 31 March 2018) the auditor of the Berkshire Pension Fund was KPMG LLP. KPMG LLP are no longer the auditor of the Royal Berkshire Pension Fund. Correspondence with KPMG has indicated that as they are no longer the Pension Fund auditor they are not in a position to provide EY, as external auditor to Reading Borough Council, with the relevant IAS 19 Assurance Letter for 2017-18. This is due to the fact that they no longer have access to the data.

What judgements are we focused on?

We focused on aspects of the pension liability which could have a material impact on the financial statements, primarily:

- ▶ significant changes in assumptions made by the actuary; and
- ▶ the assessments of the actuary undertaken by PWC, as consulting actuary commissioned by the National Audit Office, and the EY actuarial team.

What did we do?

- ▶ Liaised with the auditors (old and new) of Berkshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Reading Borough Council;
- ▶ Assessed the work of the Pension Fund actuary, Barnett Waddingham, including the assumptions they have used by relying on the work of PWC and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

What are our conclusions?

We are satisfied that the Authority has correctly reflected the IAS 19 entries provided by the actuaries in the financial statements. We are also satisfied that the actuaries are appropriately qualified.

We are liaising with the new auditors of the Berkshire Pension Fund, Deloitte LLP, to determine if there is any possibility that they may be able to provide any form of assurance. However given the fact that they were not the Pension Fund auditors we are aware that any assurance provided could be limited in nature and strongly caveated.

We are liaising with management to confirm what may be possible in the circumstances and we will need to consider the impact on the audit opinion.





Areas of Audit Focus

Significant risk

Completion of Cash & Bank and Control Account Reconciliations

What is the risk?

There were issues in previous with the completion of the bank account reconciliations for the majority of 2017/18. We highlighted this as a Significant Risk in previous years. We spent a lot of time reviewing the cash balances in the Statement of Accounts changed significantly before we were satisfied with it.

We also found that completion and review of control accounts was not timely during 2016/17 and for the majority of 2017/18.

We consider the timely completion and review of the bank and control account reconciliations as important controls that help to ensure financial control.

What judgements are we focused on?

Our judgements are focused on the financial system control environment and specifically the completion of key reconciliations. This was a significant risk area in 2016/17 and due to the ongoing and delayed nature of the 2016/17 audit, and the appointment of the Director of Finance in March 2018 bringing a new focus on this area, the control environment was not in place for the majority of 2017/18. We therefore needed to consider the impact on our audit strategy for 2017/18.

What did we do?

We completed our walkthrough of key financial systems in line with our audit approach to identify key inputs to the General Ledger.

We reviewed the regular internal audit reports on this area. We know that this aspect of the control environment in 2017/18 was also flagged as a specific concern by internal audit in their reporting to the Audit Committee and was a contributory factor in their Limited Assurance Head of Internal Audit Opinion in 2017/18.

We discussed the progress with senior management at regular intervals throughout the audit to understand the changes being made and the timeliness of those changes to determine the impact on the 2017/18 control environment.

What are our conclusions?

We note that for 2017/18 the progress in this had been slow. This was due, in part, for a number of reasons. The appointment of the Director of Finance and the re-organisation of the finance team occurred late in 2017/18 giving little time to make the necessary changes.

For example, we note that key journal controls which had been removed in 2016/17 were only restored in full from October 2017. In effect this meant that for at least half of the year the control environment and controls on journals was limited. This included the lack of a sufficient audit trail. A process of retrospective authorisation and review was therefore required to ensure the validity of journal postings. This was undertaken with internal audit being used to sample check these and reporting their conclusions regularly to the Audit Committee.

Progress in 2017/18 in respect of key account reconciliations was also slow. Issues continued to include timeliness of completion and issues around reconciling items.

This was also reported by Internal Audit in 2107/18 and was a contributing factor in their Limited Assurance Head of Internal Audit Opinion in 2017/18.





Areas of Audit Focus



Other significant risk matters

Misstatements due to fraud or error

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

This is a risk that we recognise on all engagements. Our overall response to this for Reading Borough Council included:

- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes for safeguarding against fraud; and
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.

Performing mandatory procedures regardless of specifically identified fraud risks, including:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Assessing accounting estimates for evidence of management bias; and
- ▶ Evaluating the business rationale for significant unusual transactions.

In addition to our overall response, we considered where these risk may manifest themselves and identified separate fraud risks as discussed above.

We have not identified any issues or indications of management override in our testing as at the date of this report. We will provide an update at the conclusion of the audit. We did however identify the journal authorisation controls should be improved. We have discussed this further in section 6 of this report.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What did we do?

We:

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements.

We note some adjustments in respect of valuations at Section 4. Our audit work is still subject to final conclusion on valuations and so it is still possible that further adjustments may arise.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

All Accounts

We experienced significant delays in completing our audit of the Statement of Accounts in 2015/16 and 2016/17. Both audits missed the certification date with the 2016/17 audit significantly delayed and finally certified with a qualified opinion in July 2019.

We experienced delays in receiving the working papers we needed and the required supporting information. We raised a number of recommendations in our Audit Results Report and management have committed to improve performance this year.

We updated our 2016/17 audit strategy in January 2018 to reflect the increased risk profile of the audit arising from the significant issues and errors we were experiencing during the audit. This was a new Other Area of Audit Focus with a specific consideration of All Accounts (excluding any specific accounts where we had already attached a Significant Risk).

We believe that given the systemic and inherent nature of these issues it is valid to continue this risk assessment into the 2017/18 audit.

What did we do?

We:

- ▶ Reviewed all accounts (excluding those previously detailed as Significant Risk) as having an Inherent Risk. This will enable our teams to assess each significant account with the appropriate level of professional scepticism. It will also ensure that our testing is focused at the correct risk level to reflect our wider assessment of the control environment;
- ▶ Involved a technical reviewer from our Financial Reporting Group to complete a review of the draft 2017/18 accounts. This provide the on site audit team with further support and also ensure that the draft accounts are materially compliant with all relevant standards and the CIPFA Code. The findings from this review were shared with the Council and we are working through the final items. This approach is consistent with the prior year; and
- ▶ We also involved a peer review Partner on the engagement to support the audit team in addressing any issues identified during the engagement. This approach is consistent with the prior year.

We note some adjustments in respect of all accounts at section 4.

Our audit work in respect of the EY technical review is still subject to final conclusion on all accounts. We are in the process of collating our findings and will update the audit adjustments section once all final adjustments in respect of the technical review have been agreed.



03 Audit Report



Audit Report

Draft audit report

Placeholder for the draft audit report once our work is complete

Our opinion on the financial statements



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences agreed to date

We highlight the following misstatements greater than £2.3m (TE) which have been corrected by management that were identified during the course of our audit:

- Short Term Borrowings and Long Term Borrowings misclassification, ST borrowing understated by £10,129k, LT borrowing overstated by £10,129k
- Property, Plant and Equipment opening balances presentation error: 17/18 Opening Cost and Valuation being understated by £17.555k, Opening Accumulated Depreciation being Overstated by £17,555k (PPA).

Other misstatements identified:

- We have noted an overstatement in the PPE amounting to £868,000, due to the incorrect derecognition/writing off of the property Amethyst Lane Development Site in the FAR even if the demolition have not taken place as at 28 November 2019. Impairment loss recognised in revaluation reserve understated by £95,895, Impairment loss recognised in Income statement understated by £772,105, Gain from sale of fixed assets understated by £868k.
- We have noted that buildings under the surplus assets was not depreciated during the current year. Depreciation cost understated by £38,807 and Property, plant and equipment balance overstated by £38,807.
- Based on the review of PPE additions, we have noted negative additions that relates to the prior year correction of errors. Property, plant and equipment 16/17 ending balance being understated by £703,614, Accruals being understated by £214,360, Capital Adjustment Account understated by £489,254.
- We have noted that there is an overstatement in the loss on sale of fixed assets and overstatement in revaluation gain as a result of the incorrect split made in the opening balance of land and building of the Civic Centre. The related opening balances of the land should be £5m whereas the building is nil. Revaluation gain overstated by £2m, loss on sale of fixed assets overstated by £2m.
- We have noted that there is a difference in the ending balances of Kennet Wharf (£1.375m) and Adelphi House (£295k) investment property as at 31 March 2018 from the valuation report issued by Sanderson and Weatherall. Investment Property understated by £1.67m, Gain on change of Fair Value understated by £1.67m.
- As communicated by the management, we noted that there were 3 schools (EP Collier, St. Michaels and Thameside) that have some revision in the 2016 and 2017 valuation report. We summarized the net impact on each year and proposed adjustment for the changes. The proposed adjustment in the opening balances of the 2016-17 comparative figures in Note 14 of the SOA includes the following entry. PPE - Other Land and Buildings understated by £420k, Revaluation reserve understated by £420k.
- As communicated by the management, we noted that there were 3 schools (EP Collier, St. Michaels and Thameside) that have some revision in the 2016 and 2017 valuation report. We summarized the net impact on each year and proposed adjustment for the changes. The proposed adjustment in the opening balances of the 2017-18 Movement in PPE in Note 14 of the SOA includes the following entry. Revaluation reserve overstated by £660k, PPE - Other land and building overstated by £660k.

Audit Differences

Summary of adjusted differences

- In children's service expenditure testing, we found one sample that has recognised Services relating to 18/19 in 17/18 resulting an overstatement of both income and expenditure of £178,902.
- We have noted difference in the prior year balance of council dwellings value as per HRA Stock Database and the statement of accounts. Revaluation reserve overstated by £997,683, PPE - Council Dwellings overstated by £997,683.
- Infrastructure addition not reflected in 2016-17 accounts: Short term creditor - PO accruals being overstated by £146,465, PPE-Infrastructure being overstated by £178,749.
- We noted that there are related PO accruals made by the council which no accruals of VAT component was made. We quantified the total impact on key items of these transactions and proposed an adjustment to record the VAT Component of the accruals. Short term debtor - VAT Control Account understated by £616,476, Short term creditor - PO Accruals being overstated by £616,476
- We noted that there were transactions recorded as PO accruals which relates to transactions/services to be performed after 31 March 2018. We collated all the noted findings and proposed an adjustment to revers the accruals made for these items. Short term creditor - PO Accruals overstated by £600,508, Fixed Assets being overstated by £357,418, Various expenses overstated by £243,090; Short term creditor - Sundry creditor overstated by £298,846, Short term debtor - Sundry debtor overstated by £298,846.
- To adjust the overstatement in the short term portion of the pension prepayments: Expenses understated by £246,061, Short term debtor - Payroll payment in advance (Pension prepayments) overstated by £246,061.
- Misstatement in PY accounts Note 32. Grants RIA understated by £1,589,613 and cash by the same.

Please note that the adjustments above are subject to receipt and review of final accounts. As work is still ongoing it is still possible that other adjustments could be identified.

There were also a number of other presentational and disclosure amendments which management have corrected which were below our summary of audit differences thresholds.

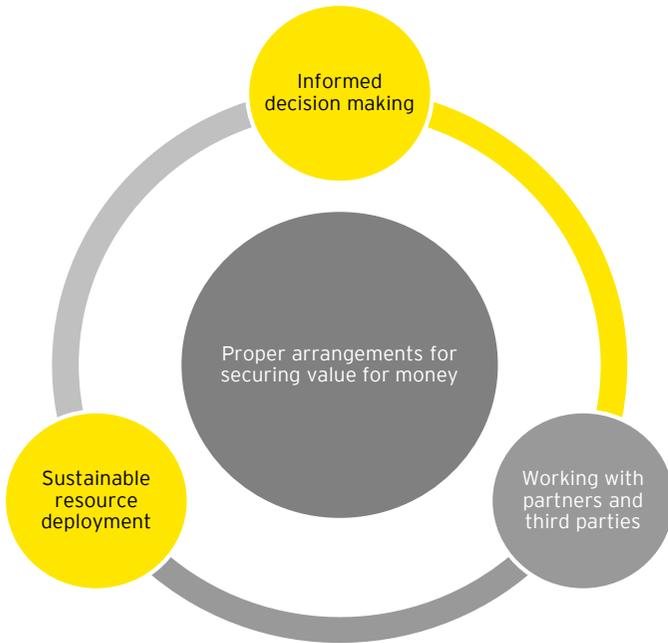


05

Value for Money



Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified a significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

We therefore expect having the following matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>In February 2017 we issued Section 24 Schedule 7(2) Statutory Recommendations covering a number of areas. In 2016/17 the value for money conclusion was qualified due to the issues arising and identified in our report.</p> <p>Whilst we can see progress being made and changes coming through at the Council, a number of the issues in our report and covered by the recommendations still existed during the 2017/18 financial year. We therefore need to consider what progress was made during the year and the impact on our report.</p>	<p>Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties</p>	<p>In reaching our conclusion on the 2017/18 value for money conclusion we have specifically focused on the following key areas:</p> <p>1) Revisiting the recommendations made as part of the 2016/17 audit to understand the Council's progress against these. The areas specifically identified in the Section 24 Schedule 7 (2) Report included:</p> <p>i) Informed Decision Making: Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance information:</p> <p>We found that the financial and performance information used by the Council is not always accurate and reliable and therefore did not help informed decision making.</p> <p>Reliable and timely financial reporting that supports the delivery of strategic priorities</p> <p>We found that the financial reporting was not reliable throughout 2016/17.</p> <p>Maintaining a sound system of internal control</p> <p>We found that some of the basic financial controls were not working as expected, for example, the regular completion of reconciliations is not timely, the year-end bank reconciliation did not balance and there were no control procedures over the production or posting of journals during financial year 2016/17. This increases the risk of fraud and errors remaining undetected.</p>



Value for Money Risks

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Value for Money Risks

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Value for Money Risks

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Value for Money Risks

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06 Other Reporting Issues

Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements. We noted a number of internal casting and consistency errors which have been accepted and corrected by management.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Audit & Governance Committee upon completion of the audit.

Other reporting issues

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have detailed the proposed modifications to the audit report in the Executive Summary. We have nothing further that we need to draw to the attention of the Committee.



07

Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We wish to report the following matters.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2017/18 audit. At the completion of the audit we will issue a [formal management letter containing all of the identified points.

	High	Moderate	Low	Total
New points raised in FY1X	2	7	0	9

- Key:
- [A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.]
 - [Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.]
 - [Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.]

The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Assessment of Control Environment

Area	Payroll	Rating	
Observation	Casual workers who have worked at the Council and subsequently left are not removed from payroll in a timely manner. As part of the audit we identified instances where the casual workers were not removed from the payroll system for up to 1 year after leaving.		■
Management comment			
Observation	We identified one instance where an employee was being paid but was not on the payroll Masterfile.		■
Management comment			

Assessment of Control Environment

Area	MOSAIC System	Rating	■
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Observation Since 2016, the authorisation screen does not appear for any of the PO that were raised through Mosaic System so any approval of POs cannot be evidence. The client states that this was approved by an individual at a higher level than the head of service but we were not provided with evidence to support this.

Management comment

Area	Exit Packages	Rating	■
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Observation Our testing of Exit Packages identified an example where there was no formal termination agreement confirming the terms of redundancy. This increases the risk of breaches and potential litigations

Management comment

Assessment of Control Environment

Area	Employee Recharging	Rating	■
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Observation
 Three issues have been noted regarding employee recharges. 1. Managers have double counted hours leading to more employees who have had their wage charged beyond 100%. 2. No year end review of the hours allocated or a meeting with the actual employee occurs at the end of the year so all hours are based on manager's projections. 3. There is an inconsistency in the methodology of employee recharges as some are based on hours while others are based on number of staff they managed.

Management comment

Area	NNDR Appeals Provision	Rating	■
------	------------------------	--------	---

Observation
 As part of the audit we were unable to obtain supporting evidence to conclude that the NNDR write offs are approved by authorised personnel.

Management comment

Assessment of Control Environment

Area	Council Tax Bad Debt Provision	Rating	■
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Observation

As part of the audit we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the accuracy of the data used in the Council Tax Bad Debt Provision calculation particularly the Academy Report from where the 31/3/18 Remittance and Refunds data were taken from. Accordingly, we are unable to conclude on the reasonableness of the provision. We will need to assess the impact on our audit opinion.

Management comment

Area	NNDR Appeals Provision	Rating	■
------	------------------------	--------	---

Observation

The client contact was unable to provide the rationale behind the additional provision on top of the amount assessed by Analyse Local amounting to £5.67m. We will need to assess the impact on our audit opinion.

Management comment

Assessment of Control Environment

Area	NDR Impairment of Debt	Rating	■
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Observation	We are unable to obtain evidence to conclude that the NDR write off is approved by authorised personnel.		
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Management comment			
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08 Data Analytics



Use of Data Analytics in the Audit

► Data analytics – revenue and expenditure recognition and payroll

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing [journal entries and employee expenses], to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

EY Helix - GLASS: Journal Entry Data Insights -





Journal Entry Testing

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2018



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



Data Analytics

Payroll Analyser Insights

The graphic outlined below summarises the payroll data for 2017/18. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample.

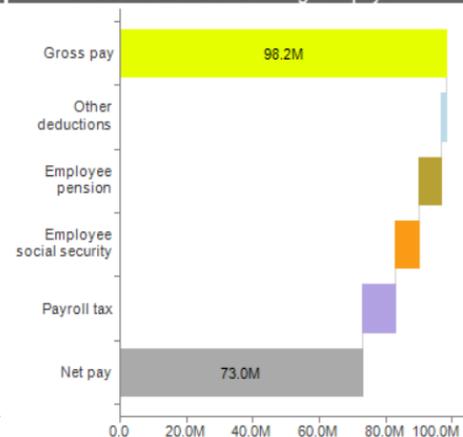
Payroll Analyzer

1. Payroll overview

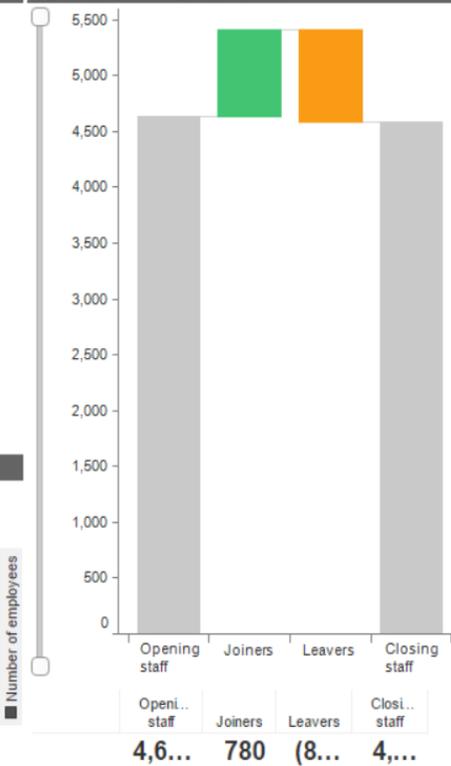
Client name: Reading Borough Council
Year end: 31-Mar-2018

Project name: Reading Borough Council
Analysis date: 31-Mar-2018

1.0 What are the components of gross pay? | 1.1 What are the deductions from gross pay? | 1.2 What are the summary numbers behind wages & salaries? | 1.5 What is the staff turnover?



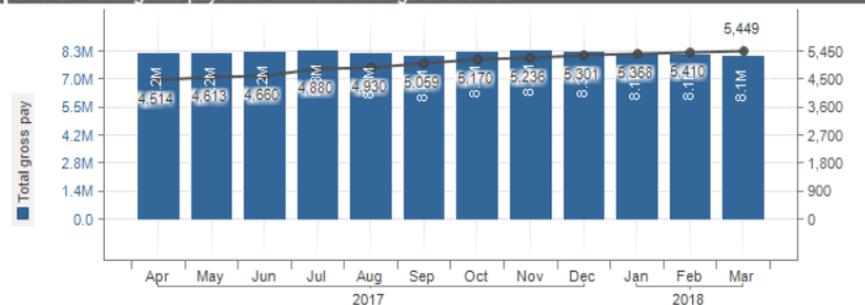
	Components	Amount	% of Gross
Total gross pay	Gross pay	98,229,200	100.0%
	Gross pay components		
	Basic pay	93,015,248	94.7%
	Bonuses	0	0.0%
	Holiday pay	290,554	0.3%
	Other gross1	1,637,931	1.7%
	Other gross2	1,098,834	1.1%
	Other gross3	561,949	0.6%
	Overtime	1,624,685	1.7%
	Net pay & deductions	Net pay	72,978,440
Other deductions		1,421,506	1.4%
Employee pension		6,794,434	6.9%
Employee social security		7,094,449	7.2%
Payroll tax		9,940,372	10.1%
Employer contributions	Employer pension	18,291,952	18.6%
	Employer social security	8,676,285	8.8%



1.3 What does the data tell me?

	Gross	#/%
Staff turnover		15.25%
Employees not in master file	47.0k	39
Employees not in transactions	0.0	0
Payments after leave date	1.0M	646
Payments before join date	0.0	0
Largest gross payment	45.0k	
Average gross payment	1.6k	
Smallest gross payment	-7.8k	
Highest paid employee : Median employee		9.21

1.4 How does gross pay and headcount change over time?





Payroll Testing

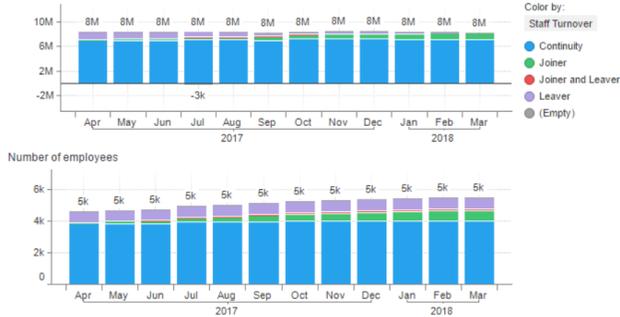
What judgements are we focused on?

Using our analysers we are able to identify anomalies in the payroll data which allow us to focus our testing and enquires over unusual or unexpected transactions.

Payroll Data – 31 March 2018

Select a variable from the drop down list below to view the analysis for different payroll transaction types. Select individual months in chart 4.0 to obtain transaction level data for the selected month, this will appear in 4.2 payment data dropdown.
Select variable: **Gross pay** Select frequency: **Monthly** Select color by: **Staff Turnover**

4.0 Monthly summary: Gross pay by posting date



4.1 Monthly summary: Gross pay

Please select from bar or line graph in 4.0 to limit data shown.

Year	Month	Total Gross pay	Avg Per Transaction	Number of transactions	% of Gross Pay	Nil Payments / Total	Monthly % Change
2017	Apr	8,183,404.13	1,813	4,514	100.00%	12/4514	
2017	May	8,156,577.75	1,768	4,613	100.00%	12/4613	-0.33%
2017	Jun	8,221,985.50	1,764	4,660	100.00%	164/4660	0.80%
2017	Jul	8,301,994.58	1,701	4,880	100.00%	260/4880	0.97%
2017	Aug	8,205,801.64	1,664	4,930	100.00%	498/4930	-1.16%
2017	Sep	8,030,264.89	1,587	5,059	100.00%	734/5059	-2.14%
2017	Oct	8,229,847.72	1,592	5,170	100.00%	716/5170	2.49%
2017	Nov	8,321,008.41	1,589	5,236	100.00%	796/5236	1.11%
2017	Dec	8,283,431.49	1,583	5,301	100.00%	841/5301	-0.45%
2018	Jan	8,128,097.38	1,514	5,368	100.00%	964/5368	-1.88%
2018	Feb	8,095,839.63	1,496	5,410	100.00%	1017/5410	-0.40%
2018	Mar	8,070,947.03	1,481	5,449	100.00%	1064/5449	-0.31%
Grand total		98,229,200.15	1,621	60,590	100.00%	7206/60590	0.00%

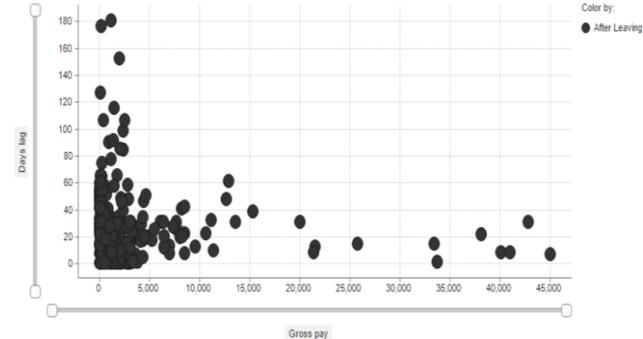
What did we do?

We obtained payroll data for the period and have used our analysers to identify unusual payments based on expectations of average pay per designation, date inconsistencies where payments made to individuals after they have left the organisation or before they have joined and payments made in the year that appears anomalous compare to average monthly payments.

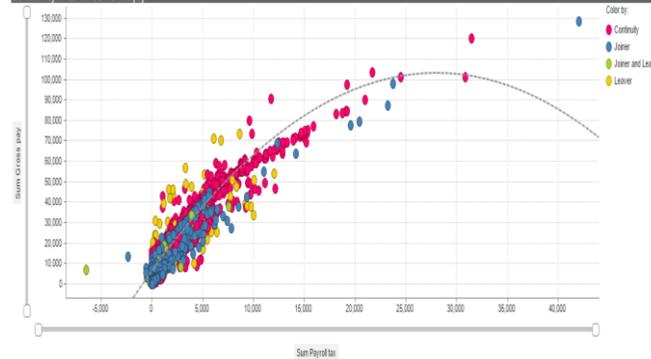
We then tested the anomalies to determine if they were appropriate and reasonable.

7.1 Gross pay vs. days lag

This shows the employees paid before joining or after leaving. If an employee leaves and returns, it is possible for them to be paid both before joining and after leaving. In this case, the number of days on the vertical axis will be the number of days before they joined.



8.0 Sum Payroll tax vs. Sum Gross pay



What are our conclusions?

We isolated a sub set of anomalies for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



09

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated January 2020.

We complied with the FRC Ethical Standards and (the requirements of the PSAA's Terms of Appointment). In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you **and your Audit & Governance Committee** consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit & Governance Committee meeting on 14 July 2020.

We confirm we have undertaken non-audit work outside the NAO Code requirements in relation to our work on Teacher's Pensions and Housing Capital Receipts. We have adopted the necessary safeguards in our completion of this work.

Independence

Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1st April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are set out in the following table. Further detail of all fees has been provided to the Audit & Governance Committee.

We confirm that none of the services listed in the following table have been provided on a contingent fee basis.

As at the date of this report, there are future services which have been contracted and a written proposal to provide non-audit services has been submitted. These non-audit services are in respect of Housing Capital Receipts, Teacher's Pensions and Housing Benefits for 2018/19 and also 2019/20.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31st March 2018.

We confirm that we have undertaken non-audit work outside the NAO Code requirements. We undertook work on Housing Capital Receipts and Teacher's Pensions. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work	TBC**	TBC**	108,938	708,938*
Housing Benefits	34,591	34,591	34,591	18,623
Non-audit work - Housing Capital Receipts	TBC***	6,500	N/A	6,000
Non-audit work - Teacher's Pensions	10,500	10,500	N/A	10,000
Total non-audit services	TBC***	51,591	34,591	34,623

All figures are exclusive of VAT

* - Due to the extensive and pervasive issues identified during the 2016/17 audit certification was delayed by approximately 2 years and required significant additional audit input including significant specialist input. The 2016/17 accounts were qualified on a number of specific areas. An additional fee of £600,000 was incurred and this was approved by Public Sector Audit Appointments Ltd (PSAA) in January 2020 following review.

** - Given the significant issues identified in the 2016/17 audit, including qualification of the accounts, there will be additional fee on the 2017/18 audit. As the audit is still not complete we have not yet agreed this additional fee. Similar to 2016/17 the additional fee will be subject to approval by PSAA Ltd.

*** - Certification has not yet been completed due to some technical issues. We will provide an update when the claim is fully certified.

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category 	Audit Approach in current year 	Audit Approach in prior year 	Explanation for change 
Trade and other receivables	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change in approach
Trade and other payables	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change in approach
Tangible fixed assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change in approach

Appendix B

Summary of communications

Date 	Nature 	Summary 
July 2019 through to January 2020	Meetings	There were a number of meetings to discuss progress with the audit and planned timings for completion - these were updated as progress was made so that all parties were up to speed on the latest position.
January 2020	Report	The draft audit planning report, including confirmation of independence, was issued to the Audit Committee.
January 2020	Meeting	The Associate Partner and senior members of the audit team met with the Audit Committee and senior members of the management team to provide an update on the status of the audit and to discuss the draft audit planning report.
January 2020 through to July 2020	Meetings	There were a number of meetings to discuss progress with the audit and planned timings for completion - these were updated as progress was made so that all parties were up to speed on the latest position.
July 2020	Report	The draft audit results report, including confirmation of independence, was issued to the Audit Committee.
July 2020	Meeting	The Associate Partner and senior members of the audit team met with the Audit Committee and senior members of the management team to provide an update on the status of the audit and to discuss the draft audit results report,

In addition to the above specific meetings and letters the audit team including the partner in charge of the audit met with the management team multiple times throughout the audit and held calls to discuss audit findings and specific technical issues.

Appendix C

Required communications with the Audit & Governance Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the audit and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report presented to the January 2020 Audit & Governance Committee
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report presented to the January 2020 Audit & Governance Committee
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits 	Draft Audit results report presented to the July 2020 Audit & Governance Committee

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	We have identified Covid-19 as an event or condition and we will be completing a process of internal consultation to determine the impact on our audit opinion.
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Draft Audit results report presented to the July 2020 Audit & Governance Committee
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Draft Audit results report presented to the July 2020 Audit & Governance Committee
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Draft Audit results report presented to the July 2020 Audit & Governance Committee

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	<p>  Draft Audit results report presented to the July 2020 Audit & Governance Committee</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report and audit results report presented to the January 2020 and July 2020 Audit & Governance Committee respectively.</p>

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Draft Audit results report presented to the July 2020 Audit & Governance Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Draft Audit results report presented to the July 2020 Audit & Governance Committee



Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work ▶ Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit planning report and draft audit results report presented to the January 2020 and April 2020 Audit & Governance Committee respectively.
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Draft Audit results report presented to the April 2020 Audit & Governance Committee.
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Draft Audit results report presented to the April 2020 Audit & Governance Committee.
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor’s report 	Draft Audit results report presented to the April 2020 Audit & Governance Committee.
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report and draft audit results report presented to the January 2020 and April 2020 Audit & Governance Committee respectively.
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	2017/18 Certification Report presented to the January 2019 Audit and Governance Committee.

Appendix D

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Statement of accounts	Incorporation of EY review comments on disclosure notes	EY and management
Management representation letter	Receipt of signed management representation letter	Management and audit & governance committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Property, Plant and Equipment	Finalising conclusion of EY testing including existence and valuations.	EY and management
IAS 19 / Pension Liability	Obtaining IAS 19 letter from Berkshire Pension Fund's external auditor to enable EY to perform required audit procedures	EY, Management and Deloitte LLP
Group Audit	Conclusion on the component team audit of Reading Transport Ltd	EY, Management and BDO
Other Financial Statement testing	Conclusion on all testing areas of the financial statement audit including I&E, Debtors, Creditors, Collection Fund and HRA.	EY and management
EY Technical Review	Conclusion and resolution of EY Technical Queries	EY and management
EY Consultation	Internal consultation on Going Concern, Post Balance Sheet Events and audit opinion	EY and management
Whole of Government Accounts	Production of updated data collection tool and supporting working papers.	Management
	Audit of revised data collection toll	EY

Draft Management representation letter

Draft Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young
FAO: Maria Grindley
Apex Plaza
Forbury Street
Reading
RG1 1YE

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Reading Borough Council ("the Group and Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Reading Borough Council as of 31 March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. There are no unadjusted audit differences.

Draft Management representation letter

Management Rep Letter (cont.)

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the 14 July 2020.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Draft Management representation letter

Management Rep Letter (cont.)

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. No guarantees have been given to third parties.

E. Subsequent Events

1. Other than those described in Note X to the consolidated and council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst Council, subsidiary undertakings and associated undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Going Concern

1. Accounting policy a) General Principles to the consolidated and council financial statements discloses all of the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and council financial statements.

J. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the asset valuations and net pension liability valuation and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Asset Valuation Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council.
2. We confirm that the significant assumptions used in making the asset valuation estimates appropriately reflect our intent and ability to carry out planned uses of assets valued.



Appendix E

Draft Management representation letter

Management Rep Letter (cont.)

3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events, including due to the COVID-19 pandemic.

M. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Director for Finance and Resources

Chair of the Audit Committee

EY | Assurance | Tax | Transactions | Advisory

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ED None

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