Reading Borough Council and Group

Draft audit planning report

Year ended 31 March 2019

15 January 2021

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15 January 2021

Dear Audit & Governance Committee Members

We are pleased to attach our Draft Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Provisional Audit Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks. Our planning procedures remain ongoing; we will inform the Audit & Governance Committee if there are any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the Committee.

This report is intended solely for the information and use of the Audit & Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 28 January 2021 as well as understand whether there are other matters which you consider may influence our audit. At that meeting we will also be able to update you on the progress being made with the 2018/19 audit and our plans for completing the audit.

Yours faithfully

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The 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 and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit & Governance Committee and management of Reading Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee, and management of Reading Borough Council those matters we are required to state to them in this 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 Audit & Governance Committee and management of Reading Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2018/19 audit strategy

Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit & Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition – incorrect capitalisation of revenue expenditure	Fraud risk/ Significant risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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. From our initial planning we believe this risk manifests itself in the incorrect capitalisation of revenue expenditure.
Qualified Accounts 2017/18 – Corporate Support Services, income; Environment and Neighbourhood Services, income and expenditure; Short-term Creditors; IAS19 pension liability, employer costs and actuarial adjustments	Significant risk	Partial change in risk or focus	The 2017/18 audit resulted in a qualified audit opinion on a number of different significant accounts listed in the left column and also Pensions (IAS 19) Scheme related amounts. The qualification arose, in the main, as a result of material errors and uncertainties arising from the audit in 2017/18. A number of these arose from historical system issues. We will need to revisit these areas as part of the 2018/19 audit and to understand any changes and improvements made. We also need to consider the opening balances on these accounts, where applicable, as the inability to gain assurance over the closing balances in 2017/18 will also have implications for the opening balances in 2018/19. We deal with the Pensions issue separately below as a separate Significant Risk. As part of the assurance process in place between auditors there is an agreed process for the provision of information between the auditors of the relevant Pension Fund and the auditors of admitted bodies of the Pension Fund. Reading Borough Council is an admitted body of the Royal Berkshire Pension Fund which in 2017/18 was audited by KPMG. At the time of our 2017/18 audit, KPMG were no longer the auditor of the Royal Berkshire Pension Fund and despite requests for their assistance from EY they confirmed they were not in a position to provide EY with the relevant IAS 19 Assurance Letter for 2017-18. This led to a qualification of the IAS19 pension liability and related amounts in the CIES. This was solely an issue with the ex-auditors of the Pension Fund. We will communicate with the new auditors of the Pension Fund to ensure that we can obtain the requisite assurances for 2018-19.
IAS 19 Assurance Process, Pension liabilities and other related amounts	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme with administration provided by Royal Borough of Windsor and Maidenhead on behalf of the Royal Berkshire Pension Fund. The Council uses the services of Barnett Waddingham, an actuarial expert, to support them with the actuarial assumptions and disclosures supporting the IAS 19 figures. Due to the significant estimation and judgements involved, we assess the IAS19 figures to carry a higher inherent risk.

Overview of our 2018/19 audit strategy (continued)

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit & Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuations of Property, Plant and Equipment (PPE) and Investment Property (IP)	Inherent risk	No change in risk or focus	The carrying amount of PPE and the fair value of IP represent significant balances in the Council's accounts and are subject to impairment reviews, depreciation charges and valuation changes, respectively. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is an inherent risk of material misstatement.
PFI Long-Term Liabilities and Deferred Income	Inherent risk	No change in risk or focus	The Council's PFI Long-Term Liability is a material liability which is calculated by a modeller into which the Council inputs assumptions. The assumptions entered into the model are a form of management estimate, which triggers a higher inherent risk.
IFRS 9 and IFRS 15 implementation	Inherent risk	New area of audit focus	IFRS9 (Financial Instruments) and IFRS15 (Revenue from Contracts) came into effect for Local Authority Accounts in 2018/19. At the time of our 2017/18 final audit work, the Authority had not conducted any preliminary work to position itself for either standard and the impact was therefore unclear. A detailed impact assessment will therefore be needed for both new standards.
Group accounts: differences in accounting policies of the components	Inherent risk	New area of audit focus	We are aware that all the subsidiaries follow FRS102 for their accounts preparation, while the Council's group accounts follow the CIPFA Code, supported by IFRS. There is a higher inherent risk that the consolidated figures might not be harmonised to comply with the Group accounting policies.
Going concern disclosures	Inherent risk	No change in risk or focus	We consider that the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.

Overview of our 2018/19 audit strategy (continued)

Group Materiality

Planning materiality
£5.525m

Materiality has been set at £5.525m, which represents 1% of the group's gross expenditure on provision of services as per 2018/19 unaudited accounts. This is consistent with the threshold applied in the prior year.

Performance materiality
£2.763m

Performance materiality has been set at £2.763m, which represents 50% of group planning materiality. This is consistent with the threshold applied in the prior year.

Audit differences
£0.276m

We will report all uncorrected misstatements relating to the group statements (group comprehensive income and expenditure statement, group balance sheet, group movement in reserves statement, group cash flow statement greater than £0.276m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit & Governance Committee.

Overview of our 2018/19 audit strategy (continued)

Single-entity Materiality

Planning materiality
£5.291m

Materiality has been set at £5.291m, which represents 1% of the gross expenditure on provision of services as per 2018/19 unaudited accounts. This is consistent with the threshold applied in the prior year.

Performance materiality
£2.645m

Performance materiality has been set at £2.645m, which represents 50% of planning materiality. This is consistent with the threshold applied in the prior year.

Audit differences
£0.264m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account, collection fund) greater than £0.264m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit & Governance Committee.

Overview of our 2018/19 audit strategy (continued)

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Reading Borough Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Reading Borough Council's audit, we will discuss these with management as to the impact on the scale fee.

02 Audit risks

Our response to significant risks

Risk of fraud in revenue and expenditure recognition - Inappropriate capitalisation of revenue expenditure

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

As identified in ISA (UK) 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 otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What is the risk?

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services.

Achievement of budget is critical to minimizing the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve the budget increases the risk that the financial statements may be materially misstated.

Whilst there is no more than normal pressure on the Council to meet the outturn position, due to the size of the capital programme there is a risk of inappropriate capitalisation of revenue expenditure.

What will we do?

- Review the capital programme to assess what schemes are included and identify anything unusual or unexpected;
- Review capital expenditure incurred by the Council to ensure that it has been correctly classified as capital rather than revenue; and
- We will specifically test Property, Plant and Equipment (PPE) additions with a specific focus on incorrect capitalisation of revenue expenditure.

In addition to the above, our audit procedures in relation to fraud and error also include review of:

- Journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Council; and
- Management bias in key accounting estimates and judgements.

Our response to significant risks (continued)

Impact of Qualified Accounts from 2017/18 – Corporate Support Services, income; Environment and Neighbourhood Services, income and expenditure; and Short-term Creditors; IAS19 pension liability, employer costs and actuarial adjustments

Financial statement impact

The relevant unaudited figures in the 2018/19 draft accounts are presented below:

Corporate Support Services, income: £74 m for the Council and the Group

Environment and Neighbourhood Services, income: £46 m for the Council and £44 m for the Group

Environment and Neighbourhood Services, expenditure: £104 m for the Council and £100 m for the Group

Short term Creditors: £80 m for the Council and £84 m for the Group

What is the risk?

The 2017/18 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 2018 was missed with final certification on the audit taking place in October 2020.

The audit opinion was also qualified across the key significant accounts listed in the column on the left. These specific accounts were qualified in 2017/18 as we were unable to obtain sufficient appropriate audit evidence to confirm that these accounts were materially correct.

IAS19 qualification in 2017/18 accounts
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.

The 2017/18 qualification of the IAS 19 related amounts was due to the fact that KPMG LLP, who acted as the auditor of the Royal Berkshire Pension Fund for 2017/18, was no longer its auditor at the time we performed our audit procedures and they had no access to the data. For 2018/19, the new auditor of the Royal Berkshire Pension Fund was Deloitte LLP. We sent a 2018/19 IAS19 letter request to Deloitte LLP and have received assurances that they will be able to provide us with the relevant information.

What will we do?

Our approach will focus on:

- Considering any brought forward closing balances from 2017/18 and the impact on qualification of opening balances for 2018/19, where appropriate;
- Designing our substantive testing procedures to understand how we can test these balances and obtain the appropriate audit evidence required. This will involve testing at appropriate thresholds which reflect the increased risk profile of these accounts and the associated significant risk.
- We will isolate areas of Income and Expenditure, such as grants and payroll, where we were able to obtain appropriate assurance in 2017/18 and focus our testing on areas where we had particular issues in 2017/18. This will include for example a focus on recharges and also on other service income and expenditure; and
- Seeking assurances from management as to what they have done since the 2017/18 audit to address the deficiencies highlighted in our prior year audit results report and following up on the status of any recommendations made as part of the prior year audit.

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?	What will we do?
IAS 19 Assurance Process, Pension liabilities and the IAS 19 valuations The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Royal Borough of Windsor and Maidenhead. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £454 million.	We will: • Liaise with the auditors of Royal Berkshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Reading Borough Council; • Assess the work of the Pension Fund's actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; and • Obtain evidence as to the impact of the McCloud ruling and Guaranteed Minimum Pension (GMP) on the 2018/19 accounts.

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?	What will we do?
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.	We will: • Consider 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 test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the CIPFA 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; • Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; • Consider changes to useful economic lives as a result of the most recent valuation; and • Test that accounting entries have been correctly processed in the financial statements.
PFI Long-Term Liabilities and Deferred Income The Council is engaged in two Private Finance Initiatives (PFI) contracts: one is with FCC (RE3 Limited) for the shared Waste PFI with Bracknell Forest Borough Council and Wokingham Borough Council and the other with Affinity (Reading) Limited for the North Whitley Housing PFI scheme. After an assessment under the requirements of IFRIC 12, it has been determined that both arrangements are controlled by the Council.	We will: • Include a review of the assumptions used in the PFI accounting model to assess whether there have been any changes since our last review; • Comment on adjustments, if any, by the Council; and • review the planned entries and disclosures for the Council's 2018/19 accounts and ensure that they are reported in line with the standards.

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?	What will we do?
IFRS 9 financial instruments This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9.	We will: • Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and accounting for 2018/19; • Consider the classification and valuation of financial instrument assets; • Review new expected credit loss model impairment calculations for assets; and • Check additional disclosure requirements.
IFRS 15 Revenue from contracts with customers This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.	We will: • Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and accounting for 2018/19; • Consider application to the Council's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and • Check additional disclosure requirements.

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?	What will we do?
Group accounts: differences in accounting policies of the components We performed the group scoping for the subsidiaries of Reading Borough Council and identified two new subsidiaries as being significant for our audit of the Council's group accounts for 2018/19: Brighter Futures For Children Limited and Homes for Reading Limited. Reading Transport Limited remains significant from our 2017/18 audit. We are aware that all the subsidiaries follow FRS102 for their accounts preparation, while the Council's group accounts follow the CIPFA Code, supported by IFRS.	We will: • Identify material subsidiary balances and transactions consolidated in the Group accounts and assess whether the accounting treatment of those amounts complies with the Group accounting policies and also the CIPFA Code; • Where exceptions are identified, we will request for management's assessment and will review it for reasonableness; • Instruct the relevant component auditors to report to us under the group accounting policies; • Check additional disclosure requirements in the Group accounts of the Council.
Going concern disclosures This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. We believe the risk has increased following Covid-19. We consider the unpredictability of the current environment to give rise to a risk that the Council will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.	We will: • Assess the adequacy of disclosures required in 2018/19, and the impact on our opinion, should these be inadequate; • Discuss management's going concern assessment and consider any evidence of bias and consistency within the accounts; • Ensure that an appropriate going concern disclosure has been made within the financial statements; and • Consider the impact on our audit report and compliance with EY consultation requirements.

03 Value for Money risks

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 2018/19 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.

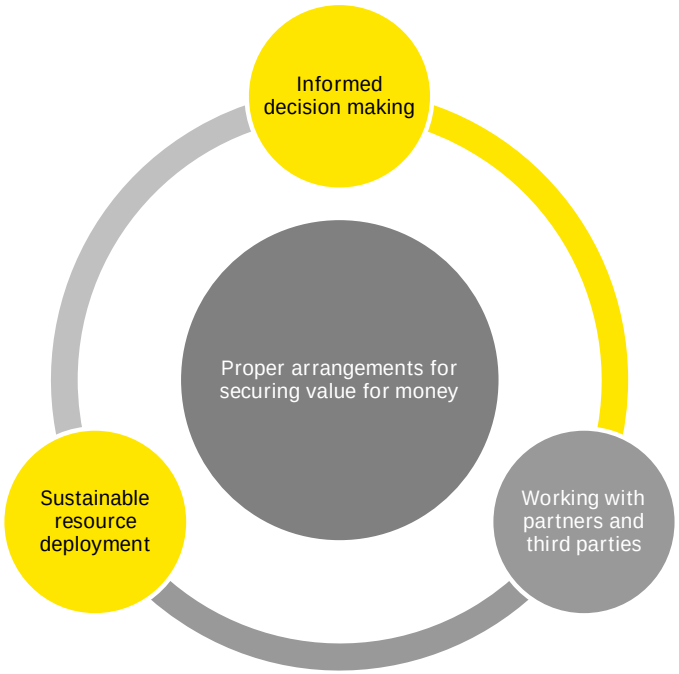
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines 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 sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by the Authority to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Risks

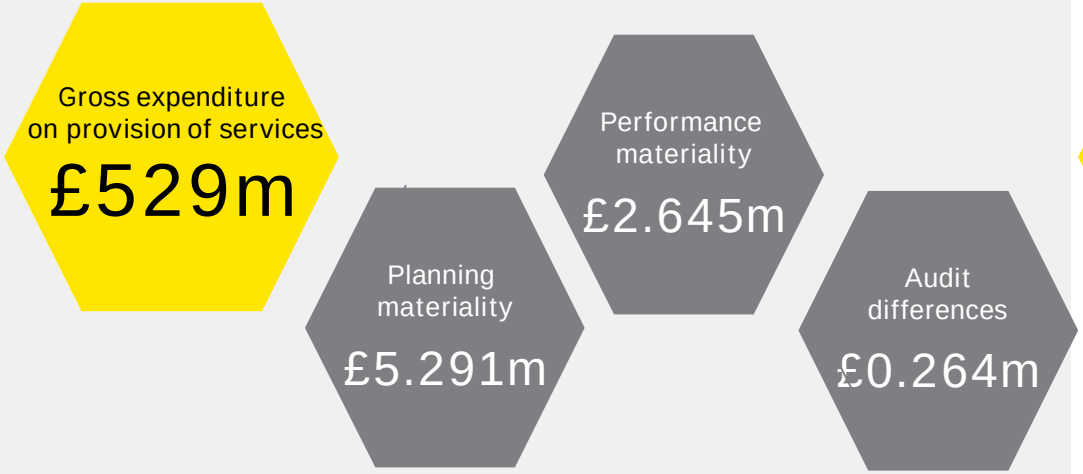
What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
In February 2017 we issued Section 24 Schedule 7(2) Statutory Recommendations covering a number of areas. In 2016/17 and 2017/18 the value for money conclusion was qualified due to the issues arising 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 2018/19 year and the impact on our report.	Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties	Our approach will focus on: • Revisiting the recommendations made as part of the 2017/18 audit to understand the Council's progress against these; • Reviewing the financial resilience of the Council with reference to the Medium Term Financial Plan, considering any budget gaps in that period and considering the Council's position in respect of Usable Reserves. • Considering the Council's outturn position in 2018/19 and considering the impact of the financial outturn on the Reserves balances. • Considering any regulatory findings from key inspectorates, such as Ofsted, with a view to understanding other non-financial performance.

04 Audit materiality

Materiality

Single-entity Materiality

For planning purposes, single-entity materiality for 2018/19 has been set at £5.291m. This represents 1% of the Council's 2018/19 unaudited gross expenditure on provision of services. It will be reassessed throughout the audit process.

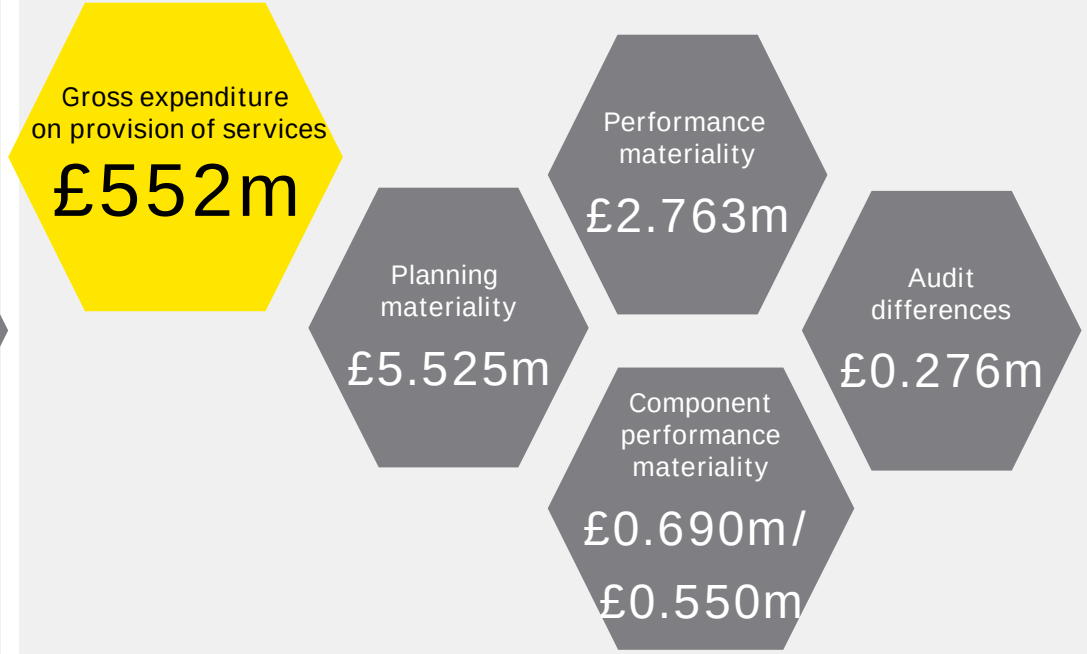


We request that the Audit & Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Group Materiality

For planning purposes, group materiality for 2018/19 has been set at £5.525m. This represents 1% of the Council's 2018/19 unaudited group gross expenditure on provision of services. It will be reassessed throughout the audit process.

Component performance materiality is allocated based on the relative size and risk identified at component level and it is calculated as a percentage of the group performance materiality. We set the performance materiality for Reading Transport Ltd at £0.690 m and for Brighter Futures for Children Ltd and Homes for Reading Ltd at £0.500m. We have provided supplemental information about audit materiality in Appendix D.



We request that the Audit & Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Materiality

Key definitions
Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £2.645m for the Council and £2.763 for the Group, which represents 50% of planning materiality. We have set the 50% threshold based on the issues noted in 2017/18 and also to reflect the anticipated errors in 2018/19. Component performance materiality range – we determine component performance materiality for each component separately as a percentage of Group performance materiality based on risk and relative size to the Group. Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income. Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective. Specific materiality – We may set a materiality lower than that specified for specific accounts for e.g. remuneration disclosures, related party transactions, and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. If this is the case we will confirm this in our Audit Results Report.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement;

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit & Governance Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix D.

2	A	Full scope audits
2	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
0	E	Other procedures

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scoping the group audit (continued)

Group audit team involvement in component audits
Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

Location name	Planned involvement by the Group team
Full scope 1 – Reading Borough Council	The accounts of the parent and the largest component, Reading Borough Council, will be fully audited by us, representing the primary team. We assessed that the materiality levels applied for the audit of the separate accounts of Reading Borough Council are appropriate for the overall group accounts' audit.
Full scope 2 – Reading Transport Limited	We sent group audit instructions to the statutory auditor of Reading Transport Limited and will review the audit work described in their deliverables covering the significant risk areas. We will ensure consistency and sufficiency of audit procedures for our group audit purposes.
Specific scope 1 – Homes for Reading	We will perform full audit procedures in accordance with EY's methodology over the in-scope accounts identified at the subsidiary level. We determined the direct audit approach to be most suitable due to the nature of the in-scope accounts identified and the timing of the audit in relation to the reporting date.
Specific scope 2 – Brighter Futures for Children	We sent group audit instructions to the statutory auditor of Brighter Futures for Children and will review the audit work described in their deliverables covering the in-scope accounts identified by us. We will ensure consistency and sufficiency of audit procedures for our group audit purposes.

06 Audit team

Audit team

Audit team structure:

Maria Grindley*
Associate Partner

Adrian Balmer
Senior Manager

Larisa Midoni
Manager

Francis Llave
Senior

Internal Specialist
EY Pensions

* Key Audit Partner

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Sanderson Wetherall (external valuers)
Pensions disclosure	EY Actuaries, Deloitte LLP, Barnett Waddingham
PFI	Arlingclose

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Indicative timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

From time to time matters may arise that require immediate communication with the Audit & Governance Committee and we will discuss them with the Audit & Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

* Our audit of the 2018/19 accounts is progressing well. We are aiming to have substantially completed the majority of our audit work by the end of March 2021 with a view to completing final procedures and checks and issuing our audit opinion in April/May 2021 subject to satisfactory conclusion of all outstanding queries and internal consultation processes. As in previous years we would ask the Audit & Governance Committee to consider delegating, in line with the arrangements in effect, responsibility to the Chair of the Audit & Governance Committee and the Section 151 Officer to approve and sign the final audited accounts when these are complete at the end of the audit.

Audit phase	Timetable	Audit & Governance Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	September – November		
Walkthrough of key systems and processes	November		
Year end audit	December – March	Audit & Governance Committee	Audit Planning Report
Audit Completion procedures	April	Audit & Governance Committee	Draft Audit Results Report*
	July	Audit & Governance Committee	Audit opinions and completion certificates* Annual Audit Letter

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, we are in the process of agreeing the final Scale Fee Variations for 2017/18 audit and have provided detail submissions to the Public Sector Audit Appointments Ltd as part of an agreed process for discussing Scale Fee Variations. We have also supplied further information to management as part of the agreement of the audit fee for 2017/18.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 12%. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Relationships, services and related threats and safeguards

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020: EY UK 2020 Transparency Report.

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table below.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee – Code work	83,882 (Note 2)	83,882	£108.,938 (Note 1)
Other – Housing Benefits '18/19	38,563*	38,563	34,591
Total audit	TBC	122,445	TBC
Other non-audit services: Housing Capital Receipts '17/18	6,500	6,500	TBC (Note 3)
Other non-audit services: Teacher's Pensions '18/9	12,500*	12,500	10,500
Total other non-audit services	19,000	19,000	TBC
Total fees	TBC	141,445	TBC

All fees exclude VAT

(1) We experienced extensive significant delays in completion of the 2017/18 accounts' audit. We have submitted our proposed additional fee to PSAA for consideration and will report this in future communication with the Audit & Governance Committee once agreed. The proposed additional fee is £419,366.

(2) For 18/19 the planned fee represents the base fee, i.e. not including any extended testing. For 2018/19, the scale fee will be impacted by a range of factors which will result in additional work.

(3) Certification of 2017/18 has not yet been completed due to some technical issues. We will provide an update when the claim is fully certified.

*The certification of the 18/19 Housing Benefits subsidy claim and also the Teacher's Pension were completed in line with the agreed deadlines for those returns and the fees noted above represent the final fees paid.

We are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Audit & Governance Committee

We have detailed the communications that we must provide to the Audit & Governance Committee.

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit & 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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
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 2021 Audit & Governance Committee
Significant findings from the audit	• 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.	Draft Audit Results Report to be presented at the April 2021 Audit & Governance Committee

Required communications with the Audit & Governance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • 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	Audit planning report presented to the January 2021 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2021 Audit & Governance Committee
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Draft Audit Results Report to be presented at the April 2021 Audit & Governance Committee
Fraud	• Enquiries of the Audit & Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit planning report presented to the January 2021 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2021 Audit & Governance Committee
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • 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 entity	Audit planning report presented to the January 2021 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2021 Audit & Governance Committee

Required communications with the Audit & Governance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguard. • Information about the general policies and process within the firm to maintain objectivity and independence.	Audit planning report presented to the January 2021 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2021 Audit & Governance Committee

Required communications with the Audit & Governance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Draft audit results report to be presented to the April 2021 Audit & Governance Committee
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit & Governance 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 & Governance Committee may be aware of.	Audit planning report presented to the January 2021 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2021 Audit & Governance Committee
Internal controls	• Significant deficiencies in internal controls identified during the audit	Draft audit Results Report to be presented at the April 2021 Audit & Governance Committee
Group audits	• 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 presented to the January 2021 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2021 Audit & Governance Committee

Required communications with the Audit & Governance Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Draft audit results report presented to the April 2021 Audit & Governance Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Draft audit results report presented to the April 2021 Audit & Governance Committee
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Draft audit results report presented to the April 2021 Audit & Governance Committee
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report presented to the January 2021 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2021 Audit & Governance Committee
Certification work	Summary of certification work undertaken	Certification report to be presented to the April 2021 Audit & Governance Committee

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group & Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit & Governance Committee reporting appropriately addresses matters communicated by us to the Audit & Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Appendix D

Scoping the group audit

The below table sets out the scoping details of all locations. We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

Detailed scoping							
In scope locations	Scope	Statutory audit performed by EY	Coverage			Current year rationale for scoping	
			Gross expenditure	Total assets	Net assets	Size	Risk
Reading Borough Council	Full	✔	91%	94%	87%	Yes	Yes
Reading Transport Limited	Full	No	8%	3%	2%	No	Yes
Homes for Reading	Specific	No	0%	2%	9%	No	Yes
Brighter Futures for Children	Specific	No	2%	1%	2%	No	Yes
TOTAL FULL & SPECIFIC SCOPE			100%	100%	100%		

Changes from last year are:

- Homes for Reading was assigned other procedures in 2017/18. It was assessed as specific scope in 2018/19 due to its growth in size.
- Brighter Futures for Children was incorporated after 31 March 2018.