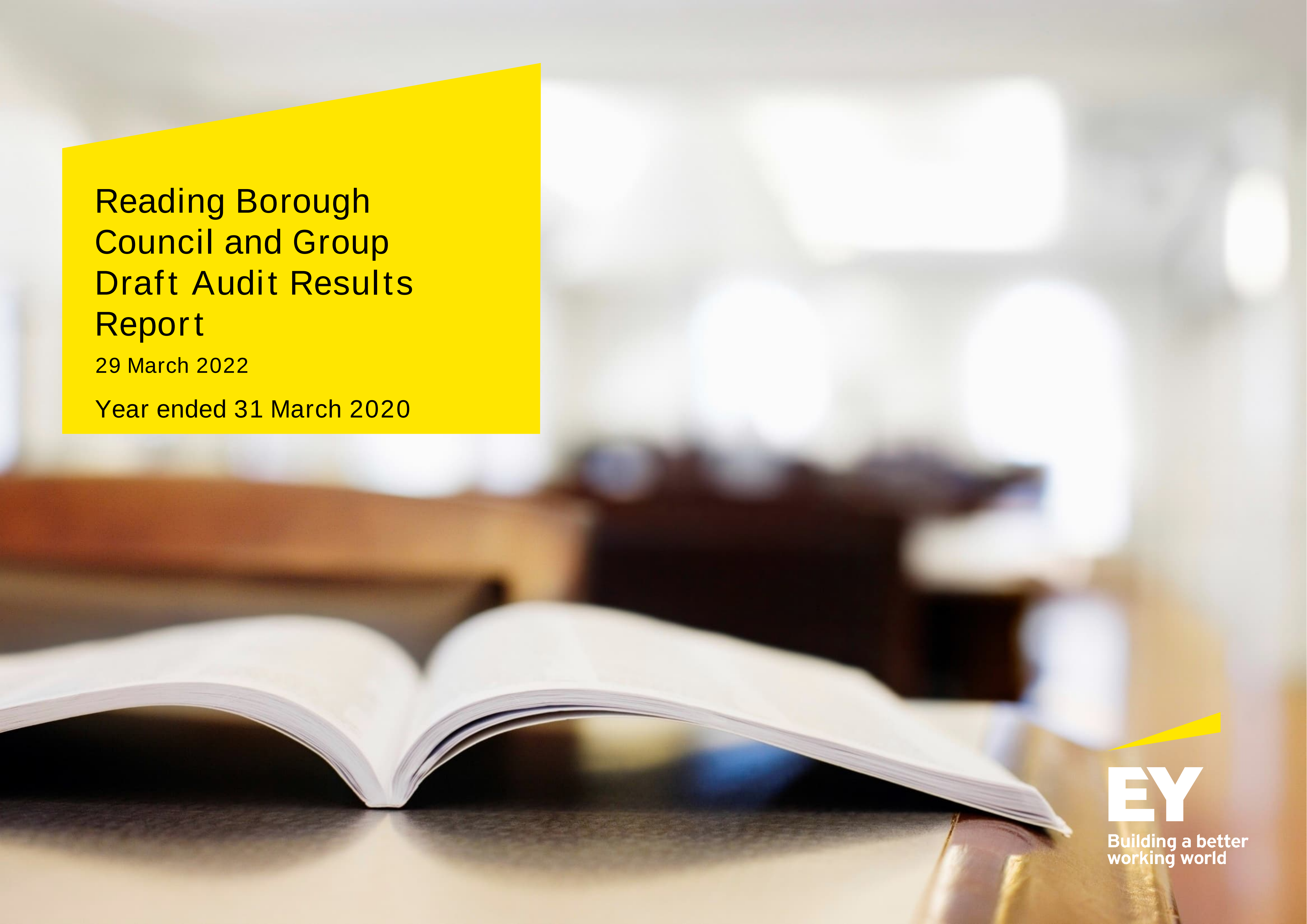
# Reading Borough Council and Group Draft Audit Results Report

29 March 2022

Year ended 31 March 2020



Building a better working world

Audit & Governance Committee

Reading Borough Council

Council Offices

Reading

29 March 2022

Dear Audit & Governance Committee Members

We are pleased to attach our draft audit results report for 2019-20. This report summarises our preliminary audit conclusions in relation to the audit of Reading Borough Council and Group for 2019/20 and also updates the Audit & Governance Committee.

We have substantially completed our audit of Reading Borough Council for the year ended 2019/20.

As set out in our executive summary, a number of issues have arisen as a result of COVID-19 which impacted on our audit. We will need to assess at the conclusion of the audit the impact of our findings on the Authority's financial statements.

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 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

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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.psaa.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 Hywel Ball, 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 25 January 2022 Audit & Governance 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, we considered the following possible areas of change:

Update on materiality:

Single Entity:

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality for the Council of £4,842 m, with performance materiality, at 50% of overall materiality, of £2.421 m, and a threshold for reporting misstatements of £0.242 m. This level of materiality remained 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 had already had received the draft unaudited financial statements at the date of our Audit Planning Report this has remained consistent throughout the audit.

Group Materiality:

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality for the Group of £5.978 m, with performance materiality, at 50% of overall materiality, of £2.899 m, and a threshold for reporting misstatements of £0.290 m. This level of materiality remained 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 had already had received the draft unaudited financial statements at the date of our Audit Planning Report this has remained consistent throughout the audit.

Group Scoping:

There has been no changes to report in our Group Scoping. For the purposes of in-scope components Reading Transport Limited (RTL) and Brighter Futures for Children (BFFC) are in-scope with Homes for Reading being review scope only.

# Executive Summary

## Scope update

In our audit planning report for the January 2022 Governance and Audit Committee meeting, we provided Members with an overview of our audit scope and approach for the audit of the 2019/20 financial statements. We carried out our audit in accordance with this plan. We note below some key considerations arising as a result of Covid-19.

Changes to reporting timescales

- As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404 came into force on 30 April 2020. This announced a change to the publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. As Reading Borough Council is behind on its delivery of audited accounts this timeline has not been met for the 2019/20 statements.

Changes to our risk assessment as a result of COVID-19

- Valuation of Property Plant and Equipment (PPE) and Investment Property (IP) - The Royal Institute of Chartered Surveyors (RICS), which sets the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of COVID-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's valuers. We consider that the material uncertainties disclosed by the valuers gave rise to an additional risk relating to disclosures on the valuation of PPE and IP.
- Disclosures on Going Concern – We are required to consider management's going concern assessment and the impact of COVID 19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment on the effects of COVID-19 and the Local Authority's actual year-end financial position and performance.
- Events after the balance sheet date – We identified an increased risk that further events after the balance sheet date concerning the current COVID-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Local Authority.

Changes to the scope of our audit as a result of COVID-19

- We followed up any impact of COVID-19 on how internal controls operated, and revisited the risks around the valuation of PPE and investment property, and how officers had challenged the valuations provided to them by their specialists.

# Executive Summary

## Scope update

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of COVID-19. Due to the unprecedented events over the last twenty four months there was a requirement that all audit opinions issued by EY are consulted on centrally by the firm's Professional Practice Directorate to ensure a consistent and robust approach is taken. The changes to audit risks, audit approach and consideration on the impact on auditor reporting requirements have changed the level of work we needed to perform. We now need to complete a risk assessment matrix to assess the level of any internal consultation. For Reading we will also need to consult internally on any proposed amendments to any areas where we had previous qualifications of the accounts.

There will be an impact on the audit fee, but we are not yet in a position to quantify this.

## Status of the audit

We have substantially completed our audit of Reading Borough Council & Group's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report.

We will need to assess at the conclusion of the audit the impact of our findings on the Authority's financial statements. In prior years we have qualified our audit report in a number of areas. For further details see the 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.

Changes in Risk Assessment:

In our Audit Planning Report we presented our assessment of Significant Risks and Other Areas of Audit Focus. Since our planning we have re-assessed the risk around the IAS 19 Pensions Liability Valuation. This has been re-assessed as a Significant Risk as a result of additional work required to address issues raised in the letter from the Pension Fund Auditor, Deloitte. We have used our Pensions Specialists to support this work. Further details can be found at Section 2.

Incorrect valuation for pension liability due to significant judgement involved: Significant Risk (originally presented in our Audit Plan as an Other Area of Audit Focus)

We have also included some additional information regarding IFRS 16 Leases at Section 2.

There are no other 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 identified a number of audit differences 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.

We have not yet identified any uncorrected adjustments greater than our reporting threshold details of which are recorded at Section 4. As the audit is still ongoing it is possible that further adjustments may arise. At the end of the audit we will ask that any unadjusted differences greater than our reporting thresholds are considered and referenced by management in the signed Letter of Representation.

We are working through the accounting transactions of some of the last agreed amendments and therefore we are expecting some further additions to those included at Section 4.

# 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 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 2019/20 financial year. We therefore needed 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 2019/20 year.

1) Informed Decision Making:

1) In prior years we 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 previous years and we note that in 2019/20 not all noted deficiencies were corrected. As a result this finding it is noted as not having been fully corrected in 2019/20. We note also that Internal Audit confirmed a Limited Assurance Opinion for 2019/20. We have raised a number of recommendations in respect of the control environment at Section 7.

2) Working with Partners and Third Parties:

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 prior years. We committed to following up on this area in 2019/20. We reviewed the subsequent Ofsted inspection reports for 2019/20 and noted that despite pockets of improvement the consistent tone of the messaging in 2019/20 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 Working with Partners and Third Parties 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. Given the delay in the certification of the audit we do need to complete the WGA procedures for 2019/20 as the national submission deadline has now passed.

We have no other matters to report.

## Independence

In our Audit Planning Report for 2019-20 presented at the January 2022 Audit & Governance Committee meeting we confirmed our 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. Details of our communications with the Audit & Governance Committee meeting is included at Appendix A.


# 02 Areas of Audit Focus

# Significant risk

## Risk of fraud in revenue and expenditure recognition, through inappropriate 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 not yet complete.

To date 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 to date has not identified any instances where expenditure had been inappropriately capitalised, or any inappropriate transfers between the Housing Revenue Account and the General Fund.

# Significant risk

## Misstatements due to fraud or error

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 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 did we do and what judgements did we focus on?

We have:

- asked management about risks of fraud and the controls to address those risks;
- Ensured we understood the oversight given by those charged with governance of management's processes over fraud; and
- considered the effectiveness of management's controls designed to address the risk of fraud.

We also performed 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.

We used our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

### What are our conclusions?

Based on the work completed to date we have not identified any evidence of material management override. We have not identified any instances of inappropriate judgements being applied or management bias. We have not identified any transactions during our audit which appeared unusual or outside the Council's normal course of business.

# Significant risk

## Potential misstatement in valuation of land, buildings and investment properties due to significant judgements involved

### What is the risk?

The Local Authority Accounting Code of Practice require the Council to make extensive disclosures within its financial statements regarding its land and buildings. The net book value of Property, Plant and Equipment (PPE) represents a significant balance (£1,016 million as at 31 March 2020) in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Investment Property balances were also material at £79 million as at 31 March 2020.

Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Additionally, the uncertain impact of COVID-19 on valuations and the material uncertainty clause included in the year-end valuation report reinforced our view that this should be classified as a significant risk.

### What did we do and what judgements did we focus on?

We have:

- 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;
- Involved our internal valuation specialists to review a sample of PPE and Investment Properties;
- reviewed the internal challenge of external valuations by the Council's surveyor;
- 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) and challenged the key assumptions used by the valuers;
- 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 Investment Property. We also considered if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers;
- Reviewed assets not subject to valuation in 2019/20 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;
- Tested to confirm that accounting entries have been correctly processed and disclosed within the financial statements;
- Ensured the appropriate disclosure has been made in the accounts concerning any material uncertainty relating to year end valuations; and
- Considered whether the disclosures relating to the above required an Emphasis of Matter within our audit opinion.

# Significant risk

## Potential misstatement in valuation of land, buildings and investment properties due to significant judgements involved (continued)

| What are our conclusions? |
|---|
| We have not identified any issues with the data sent to, and the report produced by, the Authority's valuer.<br><br>Our sample testing of valuations by our internal valuation specialists back to key asset information used by the valuer showed that the valuations carried out were reasonable. This included a sample of 10 assets across higher risk asset categories. All 10 assets were found to be within an acceptable range and there were no significant findings in respect of the key assumptions being applied.<br><br>In addition to the testing undertaken by our internal specialists the audit team also tested a number of assets across both PPE and Investment Properties. This work is still ongoing but we have nothing material from our work completed to date that we need to bring to the attention of the Audit & Governance Committee.<br><br>At Section 4 (Audit Differences) we highlight an adjustment in respect of Phoenix College which transferred to an Academy during the year and therefore was found to be still incorrectly on the Council's Balance Sheet. For associated correcting adjustments – see Section 4.<br><br>No issues were identified with the economic lives of assets.<br><br>Our testing of the journals for the valuation adjustments confirmed they have been accurately processed in the financial statements.<br><br>Our work to date has not identified any material issues we need to report to you. |

# Significant risk

## Incorrect valuation for pension liability due to significant judgement involved

### What is the risk?

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 Royal County of Berkshire Pension Fund, administered by the Royal Borough of Windsor and Maidenhead Unitary Authority (RBWM). At 31 March 2020 the pension fund deficit totalled £396 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund Administrator.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. This, alongside the impact of COVID-19 on asset values, led us to classify this as a significant risk.

In the prior year the ‘McCloud’ judgement impacted the estimate and resulted in an amendment of the net pension liability. We anticipate this will again be a key assumption in estimating the pension liability. We would expect the Authority’s actuary to be basing their assumptions taking into account the Authority’s specific membership profile and how it has been impacted by the judgement. We also note that there may be further developments in this area, potentially again coming after the balance sheet date.

### What did we do and what judgements did we focus on?

We have:

- liaised with the auditors of the Berkshire County Council 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 - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- reviewed and tested the accounting entries and disclosures made within the Council’s financial statements in relation to IAS19;
- assessed the impact of the McCloud and Goodwin legal rulings on the IAS 19 liabilities, including adjustments made by the Council and it’s actuary (Barnett Waddingham) in the production of the financial accounts and valuation report and
- engaged our internal actuarial Pensions specialists (‘the Specialists) to assess the reasonableness of the rollforward of the IAS 19 Liabilities under the new accounting estimate ISA 540. This work is now concluded and the specialists were able to independently reconcile their roll-forward with the figures produced by the actuary as at the balance sheet date to a difference of < 1%. Having completed their review the Specialists were able to conclude that the figures for the Scheme’s liability for the disclosures as per 2019/20 were acceptable relative to the prior year.

# Significant risk Pension Net Liability Valuation (continued)

## What are our conclusions?

We have assessed the work of the pension actuary (Barnett Waddingham) including the assumptions used. We have relied on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, in turn reviewed by the EY actuarial team. We did not find any issues in this area. The accounting entries and disclosures within the Authority's financial statements had been carried out correctly based on the information the Authority received from the actuary.

We have liaised with the auditors (Deloitte) of Royal County of Berkshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Authority. The response to our request was provided on 21 May 2021 however did not completely answer all the work we requested, and therefore we were required to carry out additional procedures and involve our EY pensions specialists to ensure we have the appropriate audit evidence.

<u>Issues that have been identified by Deloitte in relation to their audit of the Royal County of Berkshire Pension Fund that members should be aware of are;</u>

- Based on the evidence obtained from a walk-through of the key controls identified over maintaining member records; updating member records for employer monthly/annual data returns and changes identified by members, it was noted that there is no record of any formal checks performed over the data extracted from the administrative systems by a senior team member. As a result, Deloitte did not consider the controls to be designed and implemented satisfactorily and recommendations have been made to management in respect of those controls. We have considered the impact on the Council's accounts and we have concluded that this has no material effect on them.
- It was identified that there was a significant risk over the valuation of the longevity swap. The design and implementation of controls over the valuation of this investment at the Fund were tested. Based on the evidence obtained from a walk-through of the key control identified and it was noted that there was no record of any formal challenge by the Fund to the mortality assumption and discount rate. As a result, Deloitte did not consider the controls to be designed and implemented satisfactorily and recommendations have been made to management in respect of those controls. We have considered the impact on the Council's accounts and we have concluded that this has no material effect on them.
- During the audit work it was noted that the Fund made an unauthorised overnight loan to RBWM of £1.2m during the year ended 31 March 2020. This is a control weakness identified by Deloitte and an indicator of poor governance. Following consideration of the permissibility of the overnight loan and the associated control weakness, we understand that the Fund has reported the issue to the Pensions Regulator. This has not impacted the Council's audit, but is something Members should be aware of.
- For the Council, Deloitte have reconciled the total number of active, deferred, pensioner and dependents members submitted to the actuary to the IAS19 report produced by the Actuary. Difference of 179 were noted in relation to active members, (279) were noted in relation to deferred members (including "undecided" members) and 10 were noted in relation to pensioner and dependant members. Our tests do not provide assurance on completeness and accuracy of individual employer membership data submitted to the actuary. Therefore, we have involved our EY pensions specialists to review this area in order to assess if there was the potential for a material misstatement in the LGPS liabilities. This work is still ongoing and we hope to have a response to this by the date of the Audit & Governance Committee meeting.
- No adjustments have been made to the reflect the outcome of the Goodwin legal ruling. Again, we have involved our EY pensions specialists to assess the impact and this work is ongoing.

# 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? | What did we do? |
|---|---|
| Going Concern Compliance with ISA 570<br><br>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.<br><br>The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.<br><br>The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'<br><br>NAO guidance notes to auditors accepts that whilst the technical position regarding the going concern basis of accounting is clear, there may be a tension between the going concern assumption and the significant resource issues some authorities are facing.<br><br>It is therefore important that authorities and auditors are aware of the requirements for assessing going concern in the local government context and consider the requirements of IAS 1 and the accounting code. Where relevant, this may require the inclusion of appropriate disclosure, for example within the narrative report. | We have:<br><br>• Challenged and tested management's identification of events or conditions impacting going concern (i.e. the impact of Covid-19 on fees and charges), particularly areas where there is the risk of management bias<br><br>• Carried out a greater amount of work to challenge management's assessment of going concern, which has included auditing cashflow forecasts covering a period of 12 months from the date of issuing the audited financial statements.<br><br>• Applied necessary consideration regarding the appropriateness of financial statement disclosures around going concern<br><br>• Carried out our work in the context of, and with due consideration of, the Practice Note 10 definition of public sector Going Concern<br><br>Our work on Going Concern has been started and we have made some initial enquiries of management for supporting documentation. We will conclude our work on Going Concern at the same time as the conclusion of the audit as the disclosures and data need to reflect the current position as at the date of the audit sign off. |

# 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 did we do? |
|---|---|
| Group accounts: differences in accounting policies of the components<br><br>We performed the group scoping for the subsidiaries of Reading Borough Council in 2019/20 and identified no new significant components.<br><br>We will continue to focus on Brighter Futures For Children Limited and Homes for Reading Limited. Reading Transport Limited remains significant from our 2018/19 audit.<br><br>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:<br>• Identified material subsidiary balances and transactions consolidated in the Group accounts and assessed whether the accounting treatment of those amounts complies with the Group accounting policies and also the CIPFA Code;<br>• Where exceptions were identified, we requested management's assessment and reviewed it for reasonableness;<br>• Instructed the relevant component auditors to report to us under the group accounting policies;<br>• Checked additional disclosure requirements in the Group accounts of the Council.<br>Our work on Group accounts and accounting is ongoing.<br>We will provide an update at the Audit & Governance Committee meeting. |
| Group accounts: potential error in consolidation process due to the change in accounting period of RTL<br><br>In 2019/20, Reading Transport Limited (RTL), as a wholly owned subsidiary of the Reading Borough Council changed its financial accounting period from 23 September to 5 April. RTL issued an audited financial statement covering an 18 month period from 24 September 2018 to 5 April 2020. As a result of the related changes, there is a high likelihood that an error may occur on the consolidation process of RTL to the Group Accounts of the Council. | We:<br>• Obtained management group consolidation working paper for 2019/20 and performed a review of the individual subsidiary balance whether the balance were traced back to the audited financial statements of subsidiaries;<br>• Reviewed RTL consolidation balances to assess if they were correctly reflected the balances covering the period from 1 April 2019 to 31 March 2020.<br>• Assessed whether the eliminating entries for consolidation are appropriate and reflected correctly in the disclosures.<br>• Checked additional disclosure requirements in the Group Accounts of the Council relating to the change in the accounting period of RTL.<br><br>Our work on Group accounts and accounting is ongoing.<br>We will provide an update at the Audit & Governance Committee meeting. |

# 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 did we do? |
|---|---|
| Higher Estimation Uncertainty Over the Value of PFI<br><br>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:<br>• Included a review of the assumptions used in the PFI accounting model to assess whether there have been any changes since our last review;<br>• reviewed the planned entries and disclosures for the Council's 2019/20 accounts and ensure that they are reported in line with the standards.<br>• Included a PFI specialist to review the 2 models against independently derived models to assess their output.<br><br>Our work on PFI is substantially complete.<br>In 2019/20 we involved our internal specialist to complete an update review of the 2 PFI models: Waste and Housing.<br>Waste PFI Model:<br>Our internal specialist has undertaken their review and has raised a clarification point which is currently with senior officers. Subject to satisfactory conclusion of this point then the expert has concluded that the Waste PFI model continues to be Code compliant producing materially correct outputs for disclosures in the financial statements.<br><br>Housing PFI Model:<br>Our internal specialist has concluded their review of the models and has concluded that that the Housing Model continues to be Code compliant producing materially correct outputs for disclosure in the financial statements.<br><br>Alongside the work of the PFI internal specialist we have been reviewing all of the PFI disclosure notes to ensure that the 2 PFI models are accurately reflected in the draft financial statements and disclosures. We will provide an update at the Audit Committee meeting. |

# 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 did we do? |
|---|---|
| Potential error in the accounting treatment of cash reconciling items in main bank account reconciliation<br><br>During the 2018/19 audit, we identified an issue on unexplained and untraceable cash reconciling items in the main bank account reconciliation of the Council. Management was required to provide resolution over the related issue noted in 2018/19. However, initial discussion with the management revealed that the same issue still exists and management is currently working on this to resolve the issue.<br><br>As a result of the above issue, we believe that there is a higher inherent risk that errors in accounting treatment of the related cash reconciling items may occur. | We:<br>• Obtained management's revised bank reconciliations for the main bank account/s.<br>• Performed a review of the bank reconciliation of the main accounts focusing on the bank reconciling item and testing at lower thresholds.<br>• Assessed the accounting treatment of the reconciling items and trace the journal entries made to identify any inappropriate treatment.<br><br>Our work on the Bank Reconciliations is ongoing. The officers are still performing clearance of Cash in Transit items and finalising the bank reconciliation of the main bank account. We will review the reconciling items once the assessment is finalised.<br><br>. |

# Other areas of audit focus (continued)

| What is the risk/area of focus? | What did we do? |
|---|---|
| IFRS16 – leases<br><br>IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.<br><br>Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2022/23. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued ‘IFRS 16 leases and early guide for practitioners’.<br><br>This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including:<br>• the identification of leases<br>• the recognition of right-of-use assets and liabilities and their subsequent measurement<br>• treatment of gains and losses<br>• derecognition and presentation and disclosure in the financial statements,<br>• the management of leases within the Prudential Framework.<br><br>The guidance also covers the transitional arrangements for moving to these new requirements, such as:<br>• the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees<br>• the mechanics of making the transition in the 2021/22 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes). | The new standard was not included in the 19/20 CIPFA Code of Practice and has been delayed until 2022/23.<br><br>Full compliance with the revised standard for 2022/23 is likely to require a detailed review of existing lease and other contract documentation during 2021/22 in order to identify:<br>• all leases which need to be accounted for<br>• the costs and lease term which apply to the lease<br>• the value of the asset and liability to be recognised as at 1 April 2021 where a lease has previously been accounted for as an operating lease.<br><br>We have concluded that there is no impact on the 2019/20 financial statements. |

# 03 Draft Audit Report

# Draft audit report 2019-20 – To Follow at Conclusion of Audit

Reading Borough Council 2019-20

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 known misstatements greater than £0.242 million (audit difference) which have been corrected by management that were identified during the course of our audit:

Audit difference
- Reclassification of short term borrowings to long term borrowings amounting to £10.129m as a result of the incorrect booking in the general ledger accounts of the short term and long term borrowings.
- Derecognition of the Phoenix College from the fixed asset register and from records of the Council due to its conversion to academy in 2019/20. The adjustment resulted in a reduction in the value of Property, Plant and Equipment (PPE) by £2.132m, recording of loss on disposal of non-current assets and reduction of revaluation reserve to capital adjustment account amounting to £1.263m

Below are adjustments that were identified errors by the Council which were already communicated to the audit team, however further clarifications were raised in the process.
- Adjustments in housing benefits overpayment identified by the Council which has a net impact of increasing corporate support services expenses by £0.201m and reducing short term debtor by the same amount.
- Derecognition of the duplicated assets identified by Council in the fixed asset register and in the general ledger account. The duplicated assets are recorded in Council dwelling and other land and buildings. The derecognition reduces the amount of Council dwellings by £0.337m and recording of an impairment in housing revenue account expenses amounting to £0.333m.

Misstatements in the note disclosures
There are also a number of other presentational and disclosure amendments which management have agreed to be corrected so far.
- The notes disclosures affected by the reclassification of short term borrowing to long term borrowings, derecognition of Phoenix College and reclassification of BFFC short term borrowing to long term borrowing should be update these changes. The affected notes include the short term debtor, long term debtors, financial instruments and others.
- Incorrect presentation of the insurance provision as “other” instead of “Insurance provision”. The change in the note amounted to £1.8m. The note does not affect the total amount in the trial balance or the amount presented in the balance sheet of the statement of account and is merely a presentation issue.

There are also a number of casting and consistency checks which the management agreed to correct in the latest version of the account.

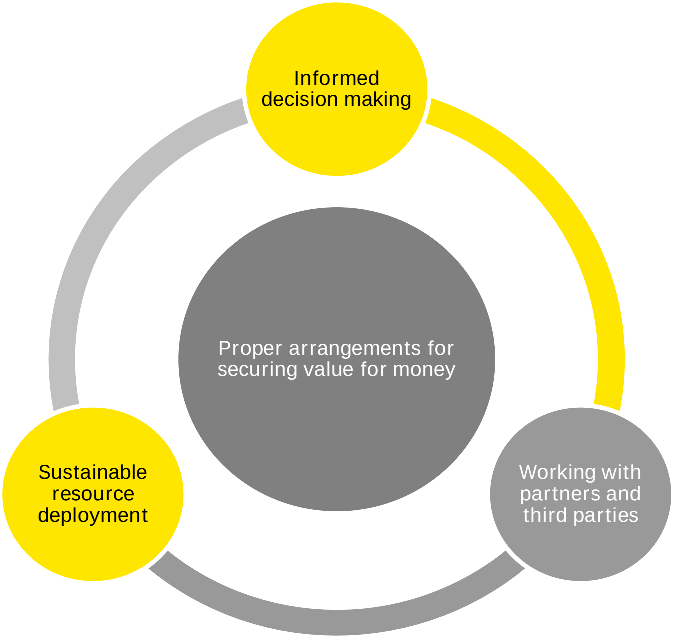
# Audit Differences

## Summary of un-adjusted differences

There are currently no uncorrected audited adjustments greater than our reporting threshold of £0.242 million. We will continue to review the unadjusted audit differences and will report the position at the end of the audit should any unadjusted differences be greater than £0.242 million.
At the conclusion of the audit we will also need to assess any potential turnaround impact of prior year unadjusted differences.

# 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 2019/20 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 (AGS)..

## 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.
In the prior year we highlighted weaknesses in arrangements across 2 of the 3 sub-criteria and our VFM conclusion opinion was qualified with an adverse opinion.

During 2018/19 due to the progress in financial reporting we removed the qualification in the following area:
Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance information. This therefore removed the previous qualification on *‘Sustainable Resource Deployment’.*

We include some commentary on the following pages in respect of those areas where we have seen progress and also those where we still have identified weaknesses and therefore included qualifications. The specific areas of qualification are:
- Maintaining a sound system of internal control;
- Working with Partners and Third Parties

We therefore have 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?

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 2018/19 financial year. We therefore need to consider what progress was made during the year and the impact on our report.

## What arrangements did the risk affect?

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

## What are our findings?

In reaching our conclusion on the 2019/20 value for money conclusion we have specifically focused on revisiting the recommendations made as part of the 2017/18 and 2018/19 audits to understand the Council's progress against these. The areas specifically identified in the Section 24 Schedule 7 (2) Report included the following areas where we identified weaknesses in arrangements.

Sustainable Resource Deployment

- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance information;
- Reliable and timely financial reporting that supports the delivery of strategic priorities; and

# 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 are our findings?

Sustainable Resource Deployment (continued)

In respect of the appropriateness and reliability of financial information and reporting we have seen positive progress in this respect in 2019/20 as evidenced in the positive movement on financial outturn in 2019/20 resulting in a £7m underspend. This has been helped by more accurate financial reporting in 2019/20 as well which has enabled management to make better informed decisions.

This demonstrated a greater degree of financial stability and financial management and enabled the Council to return General Fund Reserves to £7.5m (PY: £7 m). This was an amount previously agreed by the Council as the minimum amount for such balances. In addition to the £7.5 m General Fund balances the Council also had a total of £52.6m in Earmarked Reserves as at 31 March 2020 (PY: £43.8 m). As a result we are satisfied with arrangements in place in this area.

# 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 are our findings?

- Maintaining a sound system of internal control.

With regards the financial controls highlighted as not operating effectively in the previous year, progress in correcting these was mixed and certainly even where progress was noted this was not in place throughout 2019/20. We also note that the Head of Internal Audit Opinion reverted in 2019/20 to an assurance conclusion of: Requires Improvement (PY: Reasonable Assurance).

Bank reconciliations was an area where we had raised concerns over their completion. This area has also been highlighted by Internal Audit in their reporting and we have included recommendations in respect of Bank Reconciliations at Section 7.

Given these issues in respect of maintaining a sound system of internal control we conclude that there remains evidence of weakness of arrangements in 2019/20. This impacts the criteria of Informed Decision Making. See Audit Report at Section 3.

# 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 are our findings?

Working with Partners and Third Parties

- Children's Services:

In August 2016, Ofsted issued an inspection report of services for children in need of help and protection; children looked after; and care leavers and a review of the effectiveness of the local safeguarding children board.

It concluded that Children's services in Reading were inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The Inspection found that children are left too long in situations of unknown and acute risk.
The Council accepted the findings of the Inspection and put in place procedures to improve performance. Ofsted have monitored progress since the issue of its initial report and in its update letters, issued in July 2019 and October 2019 concluded that the Council was not making the expected progress in improving services for its children and young people. We note below our consideration of subsequent inspection findings throughout 2019/20:

| July 2019 Inspection Report | October 2019 Inspection Report |
|---|---|
| - Performance management data and audits have identified areas for improvement but this is impeded by lack of staff;<br>- Although some improvements in service e.g. children and young people disability team, progress is slow, uneven and when made, is not always sustained;<br>- Despite commitments from senior leadership to improve – not translated into the quality of service that children in Reading receive. | - Frequent changes in senior management have slowed down progress;<br>- Some children aren't still properly assessed and understood;<br>- Evidence of improvement in most areas since last inspection;<br>- Quality of assessments has improved but not all are completed in a timely manner. |

Taking the reports as representative of the position in Children's services in 2019/20 there is evidence of improvement on the inspections taking place. We know for example that OfSTED updated its conclusion in respect of Children's Services. This moved the assessment from Inadequate to Requires Improvement.
During 2019/20 however there is still a lack of consistency across Children's services during that period with a number of concerns raised by the regulator at regular intervals in that period. We are aware that the Children's Company 'Brighter Futures for Reading' was incorporated in December 2018 and this has been a key focus of our work on value for money during the 2019/20 audit.

Taken together this is evidence of weakness in arrangements during 2019/20 and results in a qualification on Working with Partners and Third Parties. See Audit Report at Section 3.

# 06 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 2019/20 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 2019/20 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.

Given the delays in certifying the 2019/20 accounts we are not required to complete the certification as the national WGA certification for 2019/20 has been completed and closed for further submissions. This was also the position for the 2018/19 WGA submission.

# 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 nothing further that we need to draw to the attention of the Audit & Governance Committee.

# 07 Assessment of Control Environment

# Assessment of Control Environment – 2018/19 and 2019/20

## 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 identified a number of 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 follow up on the matters previously reported in 2018/19 and to assess the status of these issues and also report additional following matters identified in 2019/20.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2019/20 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 issues raised in FY 18/19 | 6 | 6 | 0 | 12 |
| New issues raised in FY 19/20 | 0 | 0 | 0 | 0 |

Key:

- Green: A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6–12 months.
- Yellow: 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.
- Red: 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. We will consider management's responses and report progress against these as part of future reporting to the Audit & Governance Committee.

# Assessment of Control Environment – Reported in 2018/19

| Area | HRA Financial Management | Rating | |
|---|---|---|---|

**Observation**

In 2018/19 the Council made a change to its MRP policy and thus, it was the first year that no MRP was charged for Housing Revenue Account (HRA). While this is not against the statutory requirements, the statutory guidance states that local authorities with HRAs are instead required to make a charge to their Major Repairs Reserve. We were informed by the Section 151 officer that there was a 30-year HRA business plan in place in 2018/19, however the previous HRA responsible individual left RBC and there is no traceability of how the accounts reflect that business plan for 2018/19. We identified this to be a control weakness around the financial management of the HRA account. As a remedial action by RBC, a new procedure was drafted which requires that "budgets proposed for the HRA must match with the 30-year financial plan, with clear reconciliations provided where necessary to prove that this is the case." Nevertheless, this remains an issue for 2018/19 accounting.

**Management comment**

Agreed. An internal audit also identified weakness in the financial management of the HRA. These were reported to Audit & Governance committee on 20 April 2021. A new procedure for the financial management of the HRA has been agreed and is in the process of being implemented that will address this control deficiency.

| Area | MRP Changes in Methodology | Rating | |
|---|---|---|---|

**Observation**

In 2018/19 the Council made a change to its MRP policy. Under the statutory guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003, where a local authority changes the method(s) that it uses to calculate MRP, it should explain in its Statement, why the change will better allow it to make prudent provision. We requested for the supporting Statement and explanations, however the Statement to the members dated 28 February 2018, which discusses the new MRP policy, does not explicitly state how the change will better allow it to make prudent provision. We consider this to be an internal control weakness and recommend the Council clearly explain to its stakeholders the rationale for the changes in its MRP policy according to the statutory guidance.

**Management comment**

Agreed. The updated MRP policy was properly agreed by Council on 28 February 2018 but it did not expressly address the matter of how the new policy allowed for prudent provision to be made. This will be addressed when the MRP policy is presented to Council for approval in February 2022.

# Assessment of Control Environment – Reported in 2018/19

| | | | |
|---|---|---|---|
| Area | Schools' Reporting Monitoring/Reconciliation Processes | Rating | |

**Observation**

RBC collects school dedicated grants from the government and transfers those to the individual schools based on their allocation share. Every month, each school submits a return to RBC with all the income and expenses incurred by them, which are consolidated in the RBC's CIES as its own income and expenditure. RBC records the grants received as income before transferring to schools and then consolidates the school returns by eliminating transactions between RBC and the schools.

The staff involved in processing the funding payments to schools/posting the journals are Brighter Futures For Children (BFFC) staff. RBC uses a coding structure and ensures that there are codes in place which are only used for the transfer of schools' funding transactions and therefore can easily be removed from the CIES transaction upon consolidation.

The grant funding transactions transferred to schools are processed by staff working in schools into the schools' systems. The schools staff then submit monthly expenditure and income returns to the BFFC schools finance team showing the total value of transactions for each cost centre. These are processed monthly into the RBC schools' codes in the general ledger.

During our audit, the Council identified that schools' staff do not consistently use the codes provided by BFFC staff for specific transactions such as funding and also code other income transactions incorrectly which makes it difficult to reconcile the funding transferred to maintained schools from RBC. This resulted in double counting in the 2018/19 accounts the Children's Income and Expenditure relating to schools.

**Management comment**

Agreed. RBC Finance staff have met with the relevant BFFC staff and agreed changes to the process of allocating grants to maintained schools from 2021/22 which will resolve the potential to double count the grant related expenditure and income. Specific codes will be used for grant reallocations to maintained schools thus making easier to track and identify the transfer of grants from RBC and the income in maintained schools' codes and to reverse these entries on consolidation. The change of coding above can only be introduced from 2021/22 as it requires changes to the current schools' processes and these will need to be communicated and set up before they are implemented.

For the 2019/20 and the 2020/21 accounts an additional task has been included in the closing timetable/task list to complete a working paper identifying and reconciling all grants passed to maintained schools and to complete a reserving journal in the RBC accounts to remove the impact of the grant transfer and school's income on consolidation.

# Assessment of Control Environment – Reported in 2018/19

| Area | Overall Analytical Review and Approval Procedures on the Accounts |
|---|---|
| Rating | (red) |
| Observation | As part of our audit, we identified that an appropriate overall analytical review of the accounts was not performed by senior accounting personnel before publishing the accounts and submitting them for audit. A proper reasonableness analytical review on the accounts acts as a detection control and it can enable management to identify errors on a timely basis. An approval process was not also observed or implemented prior to the release on the account in the Council's website.<br><br>A full quality control review of the draft financial statements by senior officers will help support a more efficient audit and reduce the burden on RBC staff of having to address subsequent audit queries and amendments which could be prevented. The control recommendation is: a senior member of the accounting team should be completing an overall analytical review of the Comprehensive Income and Expenditure Statement and Balance Sheet and relevant notes as part of preparing and approving the draft Statement of Accounts, thus highlighting any significant variances which require further investigation.<br><br>A reasonable materiality threshold can be used, which is justified and approved by an appropriate senior level personnel. A detailed review and approval process should be designed and implemented prior to the release of the accounts in the Council's website. |
| Management comment | Agreed. The s151 officer and deputy s151 officer will both be tasked with carrying out an overall analytical review of the draft accounts before publishing the accounts and submitting them for audit. |

| Area | **Testing Investments in Subsidiaries for Impairment** |
|---|---|
| Rating | (red) |
| Observation | During our audit work on the 18/19 accounts, we noted that investments in subsidiaries had not been tested for impairment in the single entity accounts of RBC. Management took appropriate actions in response to our comments. The recommendation is to test for impairment all the material investments carried at cost at each reporting date as a minimum. |
| Management comment | Agreed. The review of impairment of material investments has been built into the Council's year end task list/timetable and this work has been completed for the 2019/20 draft accounts. |

# Assessment of Control Environment – Reported in 2018/19

| | |
|---|---|
| Area | Bank reconciliation was incorrectly performed and was not carried out frequently |
| Rating | Red |
| Observation | During the 2018/19 audit, we noted that the bank reconciliation process was not performed in a monthly basis until January 2019.<br><br>In 2018/19 and 2019/20, our substantive procedures revealed that the bank reconciliation was not carried out correctly. We obtained our assurance over the existence of bank balance through bank confirmation and the bank statement; however, the client cannot provide explanation for some of the reconciling items reported in the bank reconciliation.<br><br>The control recommendation is that a proper bank reconciliation should be carried out and reviewed by the senior management of the team before the transactions are posted in the general ledger. |
| Management comment | Agreed. Bank reconciliations are now completed on a monthly basis and reviewed and approved by the Chief Accountant. The issues relating to the cash control account reconciliation which links to the bank reconciliation and cash in transit balance are being investigated to identify the variance and improve the processes. |

| | |
|---|---|
| Area | Inconsistencies in the supporting documents received and the records of the starters and leavers |
| Rating | Yellow |
| Observation | Our substantive testing on the starters and leavers during the 2018/19 and 2019/20 revealed various inconsistencies in the records and the supporting documents received for employees starting in the Council and the employees leaving the Council. Some of the inconsistencies noted includes the following:<br>*2018/19 Findings*<br>• Some employees have signed their contract after the start date<br>• Some employees signature is not contained in the contract or the contract has not been provided at all<br>• Significant number of instances were noted that there were missing leaver paperwork and/or leaver forms are not signed.<br>*2019/20 Findings*<br>• Inconsistency in the start date as per the first payslip and the stater form for some of new joiner<br>• Last pay slip date is after the leaver date for some of the leaver sample selected.<br>The control recommendation is that the management should maintain a centralised record keeping and monitoring of the documents processed by HR and the payroll team should make sure that the documents are complete prior to updating the records in the payroll system. |
| Management comment | Agreed. Significant changes have been made in HR systems since 2018/19. |

# Assessment of Control Environment – Reported in 2018/19

| | |
|---|---|
| Area | Reconciliations were not performed between subsidiary ledger or other reports to the general ledger |
| Rating | |
| Observation | During the walkthrough process and our substantive procedures, we noted various account in which no reconciliations were performed by the client during the year. These were noted in the following accounts.<br>• No reconciliation between the receivable subsidiary ledger (Academy Report) and the general ledger sundry debtors account in 2018/19 and 2019/20.<br>• No reconciliation performed between the general ledger account and subsidy claim form to determine the correct amount of housing benefit expenditure to be recorded in 2018/19<br>• No reconciliation to check completeness of data received from housing repairs team via email before uploading to Oracle. Similarly, there is no check to ensure completeness of data transfer from Ohms to Total however this is an automatic process in 2018/19 and 2019/20.<br><br>The control recommendation is that reconciliation should be carried out in all the accounts of the Council that uses subsidiary ledger and a proper review and approval process should be designed and implemented to capture and difference noted in the reconciliation so it can be duly corrected in a timely manner. |
| Management comment | Agreed. The reconciliation issues raised are being dealt with as part of a wider review of the Council's financial reconciliations. This work is currently in progress and improvements will be implemented during 2021/22. In the meantime additional work is being carried out to review the reconciliations for 2019/20 and 2020/21 for sundry debtors and housing subsidy. |

| | |
|---|---|
| Area | Review and approval process were not designed and implemented effectively |
| Rating | |
| Observation | Our walkthrough procedures noted instances in the accounts payable and accounts receivable process that the review and approval process was not implemented effectively. This includes the following:<br>• No review or approval process observed for the inputs in the supplier database.<br>• There was no authorisation required for the receipt of goods in the system<br>• Any employee can raise an invoice and set up a customer account.<br>• There were no set guidelines for evaluating request to raise credit notes.<br>The control recommendation is that a proper review and approval process should be made across all the accounts |
| Management comment | The supplier inputs process is now completed by the Procurement Team to ensure a segregation of duties from Accounts Payable. A report of all supplier changes is generated weekly for review by senior officers in the Procurement Team due to the volume of supplier changes, this process is currently under review. |

# Assessment of Control Environment – Reported in 2018/19

| | |
|---|---|
| Area | Control environment surrounding transactions between the Council and Brighter Futures for Children |
| Rating | Red |
| Observation | During the 2018/19 audit we identified a number of different errors in respect of the transactions between the Council and the new subsidiary 'Brighter Futures for Children' (BFfC). The component auditor also reported findings in respect of their audit of BFfC. We recommend that a thorough review or audit is conducted to ensure that all issues highlighted have been thoroughly completed and fully resolved. |
| Management comment | Agreed. BFFC transaction reconciliations are now in place to control the movements between RBC an BFFC for intercompany transactions. In addition, regular meetings take place between RBC and BFFC to review the reconciliations and as part of the contract monitoring process. Grant payments to BFFC have now been reconciled and improvements are in the process of being implemented during 2021/22 to improve the monitoring and control of the payments. A procedure note of the reconciliation processes and controls has been produced and shared with the relevant staff. |

| | |
|---|---|
| Area | Disposal of Assets |
| Rating | Yellow |
| Observation | We noted that there was a decision made in respect of the disposal of an asset which was based on a valuation report dated after the date of the decision. All decisions should be made on the information available as at the date of the decision. |
| Management comment | Agreed. Although the valuation report confirms that best value was achieved in this case, it is accepted that the Council's procedures could be clarified. In any case where there is a suggestion of a sale at an undervalue, and the disposal has not been subject to an open market tender process, an independent valuation report should be made available to the decision maker at the time of the decision. In those cases where the sale is made to the highest bidder in an open market process, the details of the process followed will be included in the report to the decision maker so it is clear that best value is achieved. Where there is any renegotiation of terms based on a previously agreed disposal, either open market or private treaty, this too should be supported by independent valuation advice to the decision maker to ensure that best value can be evidenced. The Council will implement a protocol for disposal of assets which reflects this. |

# Assessment of Control Environment – Reported in 2018/19

| | | | |
|---|---|---|---|
| Area | Approval of new reserves | Rating | |

**Observation**

During the audit we identified a number of reserves which had been created but which did not have formal approval.

**Management comment**

Agreed. We will ensure that in future all reserves have formal approval as part of the regular communication of financial reporting through to those charged with governance.

# 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 2019/20, 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.

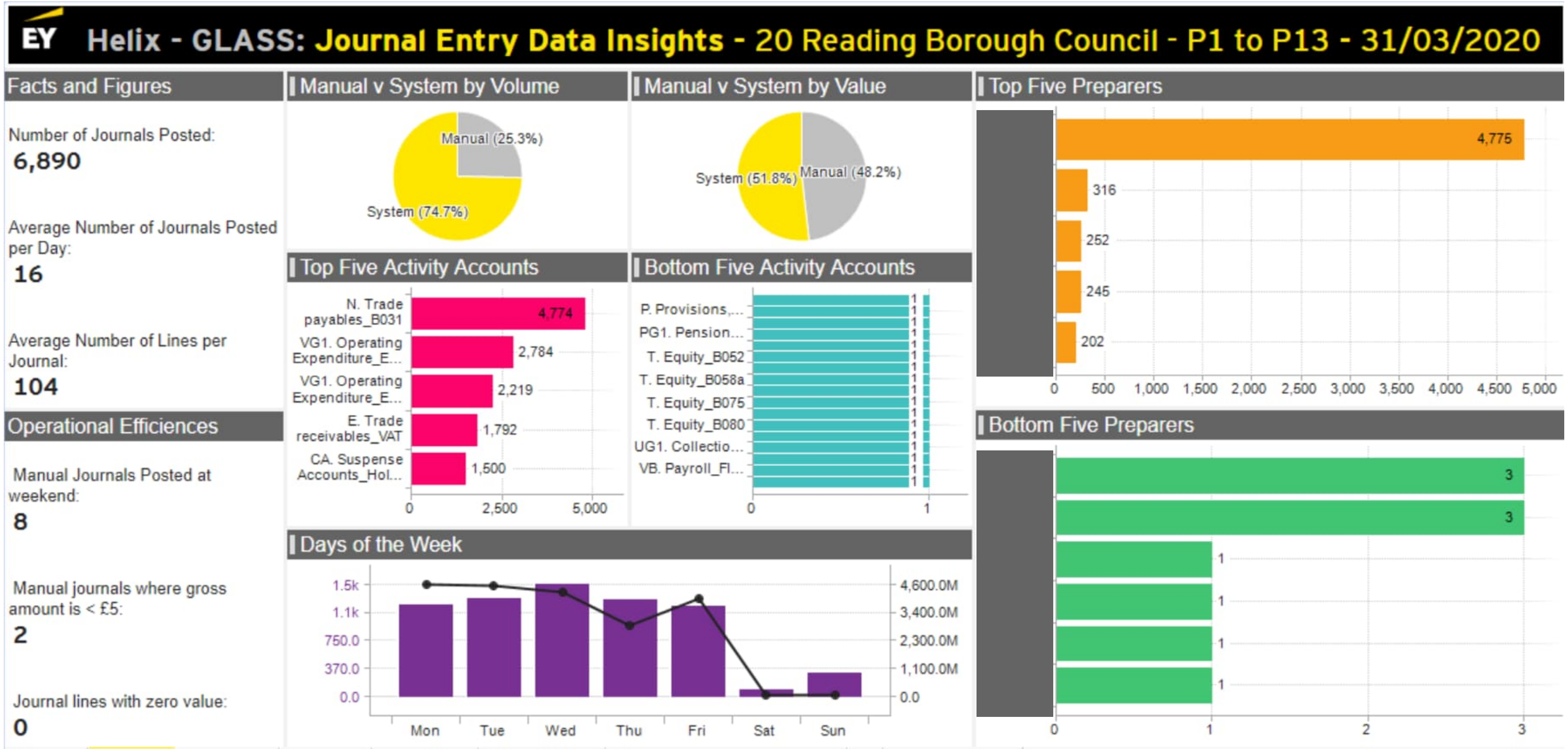
Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then 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.

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2019/20. 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.



# Journal Entry Testing

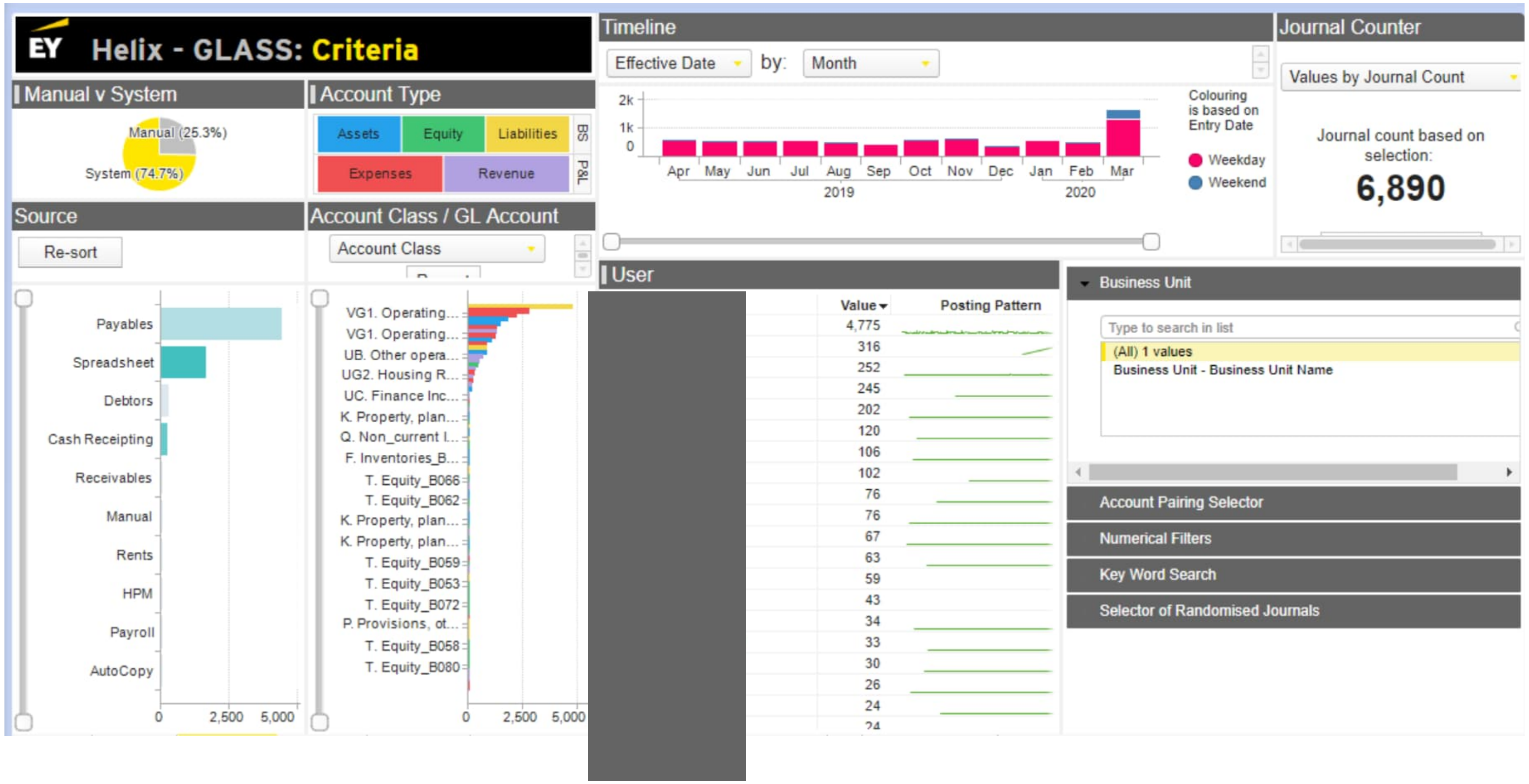
## What is the risk?

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 2020




## 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.

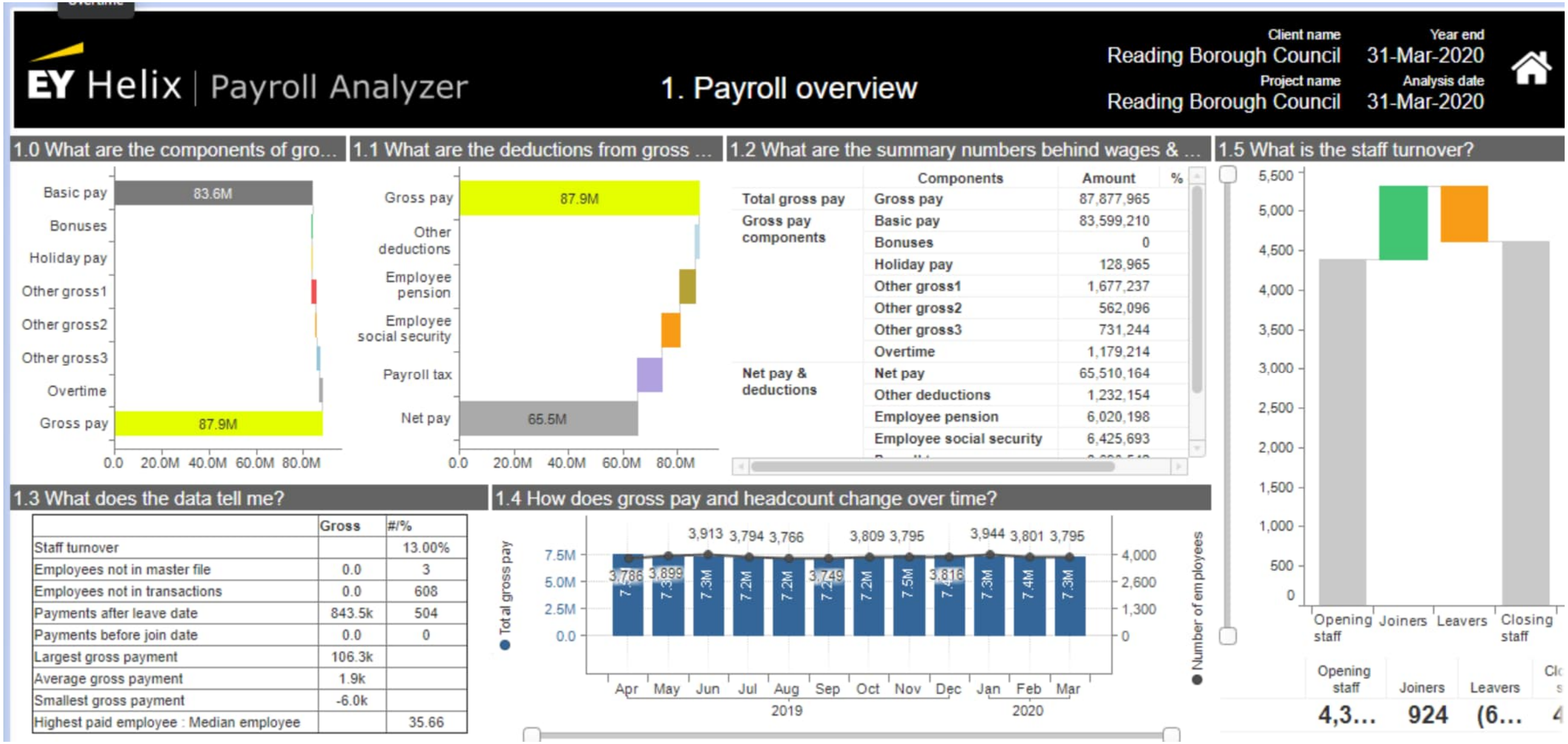
We then performed tests on the journals identified to determine if they were appropriate and reasonable.

## 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.

## Payroll Analyser Insights

The graphic outlined below summarises the payroll data for 2019/20. 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.




| | Components | Amount | % |
|---|---|---|---|
| Total gross pay | Gross pay | 87,877,965 | |
| Gross pay components | Basic pay | 83,599,210 | |
| | Bonuses | 0 | |
| | Holiday pay | 128,965 | |
| | Other gross1 | 1,677,237 | |
| | Other gross2 | 562,096 | |
| | Other gross3 | 731,244 | |
| | Overtime | 1,179,214 | |
| Net pay & deductions | Net pay | 65,510,164 | |
| | Other deductions | 1,232,154 | |
| | Employee pension | 6,020,198 | |
| | Employee social security | 6,425,693 | |

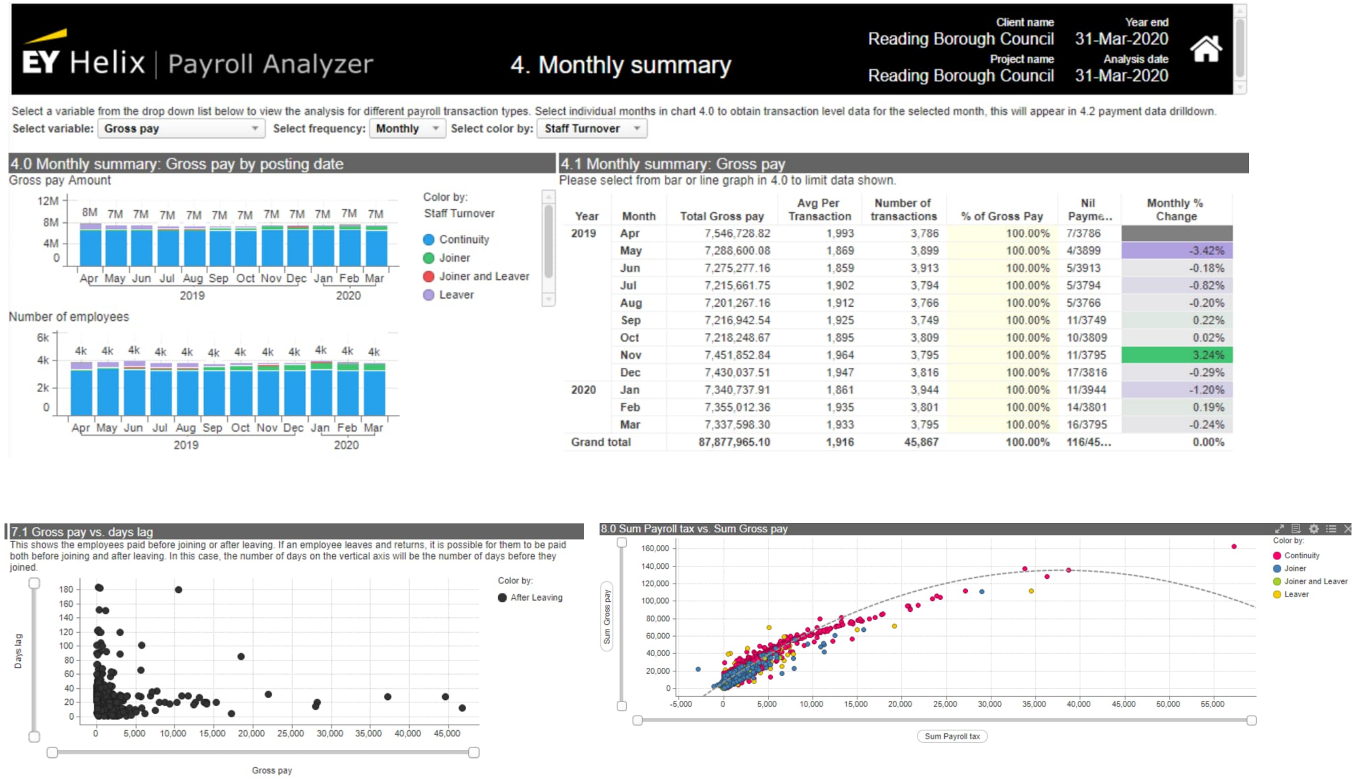
| | Gross | #/% |
|---|---|---|
| Staff turnover | | 13.00% |
| Employees not in master file | 0.0 | 3 |
| Employees not in transactions | 0.0 | 608 |
| Payments after leave date | 843.5k | 504 |
| Payments before join date | 0.0 | 0 |
| Largest gross payment | 106.3k | |
| Average gross payment | 1.9k | |
| Smallest gross payment | -6.0k | |
| Highest paid employee : Median employee | | 35.66 |

# 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 2020




| Year | Month | Total Gross pay | Avg Per Transaction | Number of transactions | % of Gross Pay | Nil Payme... | Monthly % Change |
|---|---|---|---|---|---|---|---|
| 2019 | Apr | 7,546,728.82 | 1,993 | 3,786 | 100.00% | 7/3786 | |
| | May | 7,288,600.08 | 1,869 | 3,899 | 100.00% | 4/3899 | -3.42% |
| | Jun | 7,275,277.16 | 1,859 | 3,913 | 100.00% | 5/3913 | -0.18% |
| | Jul | 7,215,661.75 | 1,902 | 3,794 | 100.00% | 5/3794 | -0.82% |
| | Aug | 7,201,267.16 | 1,912 | 3,766 | 100.00% | 5/3766 | -0.20% |
| | Sep | 7,216,942.54 | 1,925 | 3,749 | 100.00% | 11/3749 | 0.22% |
| | Oct | 7,218,248.67 | 1,895 | 3,809 | 100.00% | 10/3809 | 0.02% |
| | Nov | 7,451,852.84 | 1,964 | 3,795 | 100.00% | 11/3795 | 3.24% |
| | Dec | 7,430,037.51 | 1,947 | 3,816 | 100.00% | 17/3816 | -0.29% |
| 2020 | Jan | 7,340,737.91 | 1,861 | 3,944 | 100.00% | 11/3944 | -1.20% |
| | Feb | 7,355,012.36 | 1,935 | 3,801 | 100.00% | 14/3801 | 0.19% |
| | Mar | 7,337,598.30 | 1,933 | 3,795 | 100.00% | 16/3795 | -0.24% |
| Grand total | | 87,877,965.10 | 1,916 | 45,867 | 100.00% | 116/45... | 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 appear anomalous compare to average monthly payments.

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

## 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

# 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 2022.

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 12 April 2022.

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.

# 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 2020 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 2020/21.

# 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 2020.

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 2019/20 | Planned Fee 2019/20 | Scale Fee 2019/20 | Final Fee 2018/19 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Total Audit Fee – Code work | TBC** | TBC** | 108,938 | 382,905* |
| Housing Benefits | 34,591 | 34,591 | 34,591 | 18,623 |
| Non-audit work – Housing Capital Receipts | TBC*** | 7,500 | 7,500 | 7,000 |
| Non-audit work – Teacher's Pensions | 11,000 | 11,000 | 11,000 | 10,500 |
| Total non-audit services | TBC*** | 53,091 | 53,091 | 36,123 |

All figures are exclusive of VAT

* – Due to the extensive and pervasive issues identified during the 2018/19 audit, certification was delayed by approximately 1 year and required significant additional audit input including significant specialist input. The 2018/19 accounts were qualified on a number of specific areas. An additional fee of £273,967 was incurred and this was approved by Public Sector Audit Appointments Ltd (PSAA) in February 2022 following review of EY audit documentation and meetings with officers. The total fee of £382,905 includes the additional fee of £273,967 and the scale fee of £108,938.

** – Given the significant issues identified in the 2018/19 audit, including qualification of the accounts, there will be additional fee on the 2019/20 audit. As the audit is still not complete we have not yet agreed this additional fee. Similar to 2018/19 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.

# 10 Appendices

# 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 |
|---|---|---|
| October 2021 through to January 2022 | 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. This included senior officers including the Director of Finance and senior members of the audit team including the Associate Partner. |
| 29 November 2021 | Meetings | Senior members of the audit team met with the Chief Internal Auditor to discuss their 2019/20 Annual Internal Audit Report and also to discuss the latest position on the control environment |
| January 2022 | Report | The draft 2019/20 Audit Plan, including confirmation of independence, was issued to the Audit Committee. |
| January - April 2022 | 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 plan and audit results report and specifically to discuss timelines for completion of the 2019/20 audit and also the indicative planned timescales for completion of the 2020/21 audit. |
| March 2022 | Meeting | The Senior Manager and Assistant Manager met with the Director of Finance to discuss the wider Group structure as part of the audit consideration of Going Concern |
| April 2022 | Report | The draft 2019/20 Audit Results Report, including confirmation of independence, was issued to the Audit Committee. |
| April 2022 | 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 plan and audit results report and specifically to discuss timelines for completion of the 2019/20 audit and also to discuss significant findings arising from the 2019/20 audit. |

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 2022 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 2022 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<br>• Significant difficulties, if any, encountered during the audit<br>• Significant matters, if any, arising from the audit that were discussed with management<br>• Written representations that we are seeking<br>• Expected modifications to the audit report<br>• Other matters if any, significant to the oversight of the financial reporting process<br>• Findings and issues regarding the opening balance on initial audits | Draft Audit results report presented to the April 2022 Audit & Governance Committee |

# Appendix C

| | | 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:<br>• Whether the events or conditions constitute a material uncertainty<br>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>• 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. Draft Audit results report presented to the April 2022 Audit & Governance Committee |
| Misstatements | • Uncorrected misstatements and their effect on our audit opinion<br>• The effect of uncorrected misstatements related to prior periods<br>• A request that any uncorrected misstatement be corrected<br>• Material misstatements corrected by management | Draft Audit results report presented to the April 2022 Audit & Governance Committee |
| Subsequent events | • 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 April 2022 Audit & Governance Committee |
| Fraud | • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority<br>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>• Any other matters related to fraud, relevant to Audit Committee responsibility. | Draft Audit results report presented to the April 2022 Audit & Governance Committee |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Related parties | Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:<br>• Non-disclosure by management<br>• Inappropriate authorisation and approval of transactions<br>• Disagreement over disclosures<br>• Non-compliance with laws and regulations<br>• Difficulty in identifying the party that ultimately controls the Authority | Draft Audit results report presented to the April 2022 Audit & Governance Committee |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>• The principal threats<br>• Safeguards adopted and their effectiveness<br>• An overall assessment of threats and safeguards<br>• Information about the general policies and process within the firm to maintain objectivity and independence<br>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. | Audit planning report and audit results report presented to the January & April 2022 Audit & Governance Committees |

# Appendix C

| Required communications | What is reported? | Our Reporting to you<br>When and where |
|---|---|---|
| External confirmations | • Management's refusal for us to request confirmations<br>• Inability to obtain relevant and reliable audit evidence from other procedures. | Draft Audit results report presented to the April 2022 Audit & Governance Committee |
| Consideration of laws and regulations | • 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<br>• 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 | • Significant deficiencies in internal controls identified during the audit. | Draft Audit results report presented to the April 2022 Audit & Governance Committee. |
| Group Audits | • An overview of the type of work to be performed on the financial information of the components<br>• 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<br>• 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<br>• Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted<br>• 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 2022 Audit & Governance Committee. Draft Audit results report presented to the April 2022 Audit & Governance Committee. |

# Appendix C

Our Reporting to you

| Required communications | What is reported? | When and where |
|---|---|---|
| Written representations we are requesting from management and/or those charged with governance | • Written representations we are requesting from management and/or those charged with governance | Draft Audit results report presented to the April 2022 Audit & Governance Committee |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Draft Audit results report presented to the April 2022 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 2022 Audit & Governance Committee |
| Fee Reporting | • Breakdown of fee information when the audit planning report is agreed<br>• Breakdown of fee information at the completion of the audit<br>• Any non-audit work | Audit planning report and draft audit results reports presented to the January & April 2022 Audit & Governance Committees. |
| Certification work | • Summary of certification work | 2018/19 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 |
|---|---|---|
| Receipt of final signed Statement of Accounts 2019/20 and Letter of Representation | Management to update the Statement of Accounts for all agreed amendments including disclosures. At the conclusion Management and TCWG to review and sign the Statement of Accounts and Letter of Representation | Management, TCWG and EY |
| Going Concern | Management to provide all requested evidence supporting the use of the Going Concern assumption for the preparation of the 2019/20 Council and Group Statement of Accounts | Management and EY |
| Value for Money (VFM) Conclusion | Work to be completed on the VFM Conclusion for 2019/20. This will include consideration of the latest inspection findings from OfSTED | Management and EY |
| Income and Expenditure (I&E) Testing | Management to provide supporting documentation to all samples selected for testing by EY. | Management and EY |
| Property, Plant and Equipment (PPE) and Investment Property testing | EY to conclude work on PPE and IP sample testing. | Management and EY |
| IAS 19 Pensions Liability Testing | EY to conclude work on IAS 19 Liability testing. EY Pensions specialists to report findings from work completed back to EY audit team. | Management and EY |
| Short term debtors and Short term creditors | Management to provide reconciliation for the sundry debtors for EY to select samples.<br>EY to conclude on the other areas under short term debtors and short-term creditors. Management to provide supports for the samples selected in PO accruals and sundry creditors and reconciliation of the intercompany debtors and creditors balances. | Management and EY |
| All other disclosures | EY team to complete work on All Other disclosures | Management and EY |
| Cash and cash equivalents | Bank reconciliation for the year 2019/20 and supporting schedules of the cash in transit.<br>EY is monitoring the bank confirmation responses received. | Management and EY |
| Private Finance Initiative (PFI) | Management to provide response for the queries raised on the difference of the PFI model for 2019/20.<br>EY to conclude on this once the response is received | Management and EY |
| Group | Work required to complete work on Group scoping | Management and EY |

# Management representation letter

## Draft Management Rep Letter

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 2020. 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 2020 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 2019/20 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:

We acknowledge the mis-statements which you have identified during your audit. We comment further on the unadjusted mis-statements schedule later in this letter but for the sake of clarity any reference to unadjusted mis-statements refers solely to items not subject to any of the specific areas of qualification as noted above.

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:

# Management representation letter

## Draft Management Rep Letter

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 2019/20 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 2019/20 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 2019/20 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. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and Council financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [please specify reasons]
6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

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.

# Management representation letter

## Management Rep Letter (cont.)

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 of the Audit & Governance Committee on 25 January 2021.
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

7. From the date of our last management representation letter dated 29 September 2021 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

# 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. Going Concern

1. Note 1 to the consolidated and Council financial statements discloses all 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.

F. Subsequent Events

1. Other than the events described in Note 6 to the consolidated and Council financial statements, there have been no other 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.

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. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

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

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. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. .

J. Reserves

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

# Management representation letter

## Management Rep Letter (cont.)

K. Use of the Work of a Specialist – Pensions, Property, Plant and Equipment and Provision Valuation Specialists

1. We agree with the findings of the specialists that we engaged to evaluate the valuation assertion on pensions, property, plant and equipment and provisions 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.

K. Estimates – Pensions, Property, Plant and Equipment and Provisions

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 2019/20 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.

K. Estimates (cont'd)

3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 .

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and Council financial statements due to subsequent events, including due to the COVID-19 pandemic.

L. 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*,

______________________

Darren Carter - Director of Finance

______________________

Councillor David Stevens - Chair of the Audit & Governance Committee

# Appendix F

## Regulatory update

Since the date of our last report to the Audit & Governance Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

| Name | Summary of key measures | Impact on Reading Borough Council |
|---|---|---|
| Code of Audit Practice 2020 | • The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21. | • The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed.<br>• Further updates will be provided when possible. |
| Going Concern - ISA (UK) 570 (Revised September 2019) | • The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020.<br>• 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. | • Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage.<br>• Further updates will be provided when possible. |
| Independence | • The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. | • We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. |

EY | Assurance | Tax | Transactions | Advisory