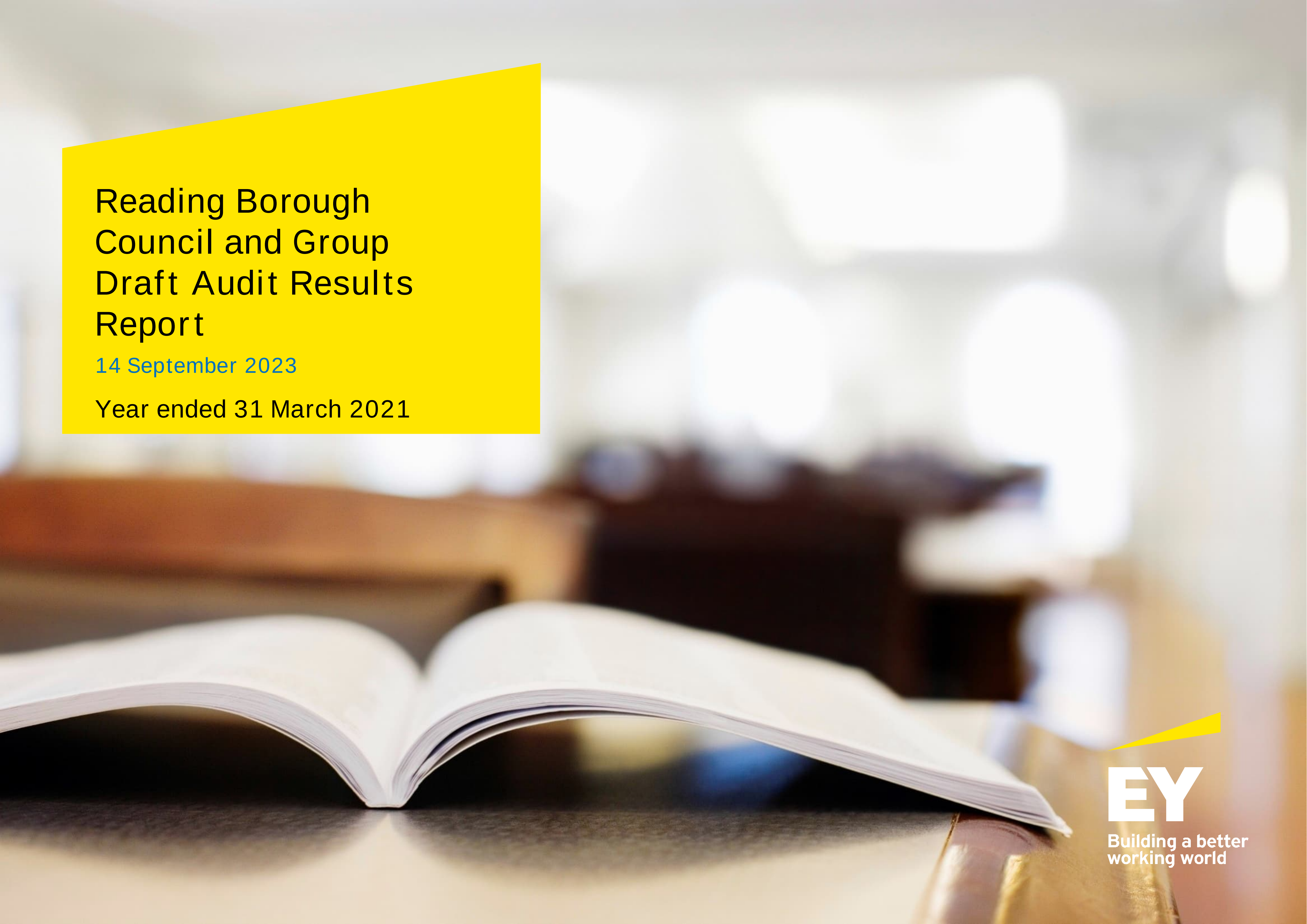

Reading Borough Council and Group Draft Audit Results Report

14 September 2023

Year ended 31 March 2021

Audit & Governance Committee

Reading Borough Council

Council Offices

Reading

14 September 2023

Dear Audit & Governance Committee Members

We are pleased to attach our draft audit results report for 2020/21. This report summarises our preliminary audit conclusions in relation to the audit of Reading Borough Council and Group for 2020/21 and also updates the Audit & Governance Committee.

Our audit of Reading Borough Council and Group for the year ended 2020/21 is progressing well.

As set out in our executive summary, a number of issues arose as a result of COVID-19 during the 2020/21 year 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.

This report has been updated for the latest position and all updates since the previous report are in blue text.

We would like to thank your staff for their help during the engagement.

We look forward to discussing the content of the report at the next Audit & Governance Committee meeting on 27 September 2023.

Maria Grindley

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 January 2023 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:

Single Entity

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality for the Council of £4.73m, with performance materiality, at 50% of overall materiality, of £2.36m, and a threshold for reporting misstatements of £0.24m. 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 £5.61m, with performance materiality, at 50% of overall materiality, of £2.81m, and a threshold for reporting misstatements of £0.28m. 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 Borough Council (single entity), Reading Transport Limited (RTL) are full scope and Brighter Futures for Children (BFFC) and Homes for Reading (HfR) being specific scope.

Changes to reporting timescales

Due to the changes in the publication dates for final account as a result of COVID-19 and delays in the delivery of the audited accounts from the previous year, the completion and delivery of the audits for 2020/21 statement has also been delayed. We are working closely with the Council to work efficiently through multiple open audit years.

Executive Summary

Scope update

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

In our audit planning, we communicated the impact of COVID-19 to our risk assessments. We noted the additional information below which we obtained as part of the our continuous risks assessment process.

- *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, 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. Though material uncertainty was not highlighted in the valuation report provided by the external valuer, we have considered the impact of Covid -19 upon society and the real estate market. We consider the that certain markets are less transparent and subject to greater volatility and are therefore reliant upon varying levels of valuer interpretation of market sentiment.

- *Disclosures on Going Concern* – We are required to consider management's going concern assessment. 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. Further to the above, higher emphasis was highlighted to increased inflation and the cost of living crisis across the UK during 2021 and 2022 which may post as key factors in the going concern assessment of the Council.

The above information did not result to any changes in our risk assessment procedures.

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
- Agreed IPE to scanned documents or other system screenshots.

Triennial Valuation

In March 2023, the triennial valuation as at March 2022 for Royal Borough of Windsor and Maidenhead Pension Fund was finalised. This counts as new information available for any open accounts and therefore following the receipt of the final triennial valuation for 2022, account preparers needed to consider whether there was a material difference to the information used in the roll forward and whether amendments needed to be made to the 2020/21 accounts under Section 3.8 of the CIPFA Code of Practice. Audit teams were also be required to consider this information when reviewing their testing of those judgments and estimates. We have provided an update at section 2.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
  How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit – Value for Money

We have previously reported to the Committee the changes to the arrangements for our work on Value for Money (VFM) resulting from the updated NAO Code for 2020/21. We are currently completing our assessment work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place.

As at the date of this report we have identified two risks of significant weaknesses in arrangements specifically in relation:

- Maintaining a Sound System of Internal Control;
- Working with Partners and Third Parties

Both of these sub-criteria were qualified in our work on VFM in prior years i.e. 2018/19 and 2019/20.

We will provide an update at the Audit & Governance Committee meeting on the status of our work on the VFM Commentary and specifically our progress in coming to a conclusion on the identified risks. This update will also include the timelines for receipt of the VFM Commentary and our conclusions against each of the three sub-criteria. For further details on VFM see Section 5 of this report.

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.

Status of the audit

Our audit of Reading Borough Council & Group's financial statements for the year ended 31 March 2021 is substantially complete and we 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. For further details see the auditor report in Section 3. We will provide an update in respect of the timeline for completion of the 2020/21 audit at the Audit & Governance Committee meeting.

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). Consequently, the management have provided adjustments to the published account which were reviewed by the audit team and will be reflected in the final statement of accounts. Details can be found in Section 4 Audit Differences.

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

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. Our work on this area is still ongoing and we have no material findings to report from the work completed to date.

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 2020/21 audit we do not need to complete the WGA procedures for 2020/21 as the national WGA process has now been finalised and concluded. The NAO have confirmed that they will not be accepting any further submissions.

We have no other matters to report.

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.

Independence

In our Audit Planning Report for 2020/21 presented at the January 2023 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.
- Revenue expenditure funded from capital under statute
- 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?

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.

As our work is currently ongoing it is possible that we may identify errors in our testing and we will provide an update at the Audit & Governance Committee meeting.

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;
- asked about 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.

Our work on journal entry testing is still in progress and we will provide an update at the Audit & Governance Committee meeting with regard to the remaining audit fieldwork completed since this report has been drafted.

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 (£1,042 million as at 31 March 2021) in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Investment Property balances were also material at £76 million as at 31 March 2021.

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 varying levels of valuer interpretation due to less transparent market and greater market volatility 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 2020/21 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?

As part of our valuation testing procedures for both other land and buildings and investment property, we have selected 15 other land and building and 7 investment properties for our review.

We engaged our internal valuation specialist (EY Real Estate Team) to review 7 properties (6 other land and building and 1 investment property), specifically selected as representative of the subcategories of other land and buildings and investment property. We engaged our specialist to review the reasonable of the assumptions used by the Council's external valuer (Sanderson Weatherall) and the valuation of each properties. The review performed by EY Real Estate (EYRE) Team identified unsupportable valuation on one of the property of the Council (i.e., Oracle). Management have provided an updated valuation of the property and adjustments as part of the valuation of Oracle. Our work on the review and assessment of the valuation of this property is still in progress. There were no other exceptions raised in the valuation provided by EYRE.

Further to the above, we performed a review of the reasonableness of the assumptions and the valuation of the remaining 9 samples of other land and building. Our work relating to the sample selected is still in progress, however management noted the following adjustments (above our threshold) in the accounts as a result of their review and queries the audit team raised.

- Adjustment to reduce the reported revalued amount of Oracle by £3.68m. The adjustment reduces the PPE (other land and buildings) and increases environment and neighbourhood services as a result of the impairment of the property.
- Adjustment to increase the valuation of hostel properties by £0.66m. The adjustment increases the PPE (other land and building) and decreases environment and neighbourhood services.

Note that these adjustments and other minor adjustments in PPE are still under review by the audit team hence additional adjustments may be raised as part of the completion of our testing and internal review. See Section 4 of this report for the details of the adjustments.

Our assessment of the valuation of other land and building include assessment of the assets not revalued during the financial year, we performed substantive analytical procedures to assess the valuations of the properties that were not revalued during the year. Our work in this area is on-going and we will communicate any findings that will arise from our review.

We also performed a review of the 6 remaining investment properties not covered by EYRE. We completed our review and assessment of valuation of the investment property and we have not noted any exceptions from the procedures performed.

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?
Incorrect valuation for pension liability due to significant judgement involved 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 2021 the pension fund deficit totalled £551 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. During the audit period, the 2022 Triennial Valuation Report for the Local Government Pension Fund managed by the Royal Berkshire of Windsor and Maidenhead Pension Fund was issued and released by the actuary – Barnett and Waddingham on the 31 March 2023. The release of this report needed to be considered as part of events after the reporting period in terms of whether adjustments or disclosure need to be made in relation to this in the statement of accounts.	We have: ▪ liaised with the auditors of the Royal Borough of Windsor and Maidenhead 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; ▪ engaged our internal actuarial Pensions specialists ('the Specialists) to assess the reasonableness of the roll-forward of the IAS 19 Liabilities under the new accounting estimate ISA 540; and ▪ considered the results of the 2022 Triennial Valuation Report and assessed any impact it has in the pension liability balance. Our work on pension schemes liability is substantially complete however the remaining substantive testing to be performed is subject to the receipt of the assurance letter from the pension fund auditors (Deloitte). We expect to receive the assurance letter from Deloitte in September and 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?
Going concern disclosures (Compliance with ISA 570) 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. 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. 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.' 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. 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: ▪ 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 ▪ 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. ▪ Applied necessary consideration regarding the appropriateness of financial statement disclosures around going concern ▪ Carried out our work in the context of, and with due consideration of, the Practice Note 10 definition of public sector Going Concern Our work on Going Concern has 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. We will provide an update at the Audit & Governance Committee.

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?
<u>Group accounts: differences in accounting policies of the components</u> We performed the group scoping for the subsidiaries of Reading Borough Council in 2020/21 and identified no new significant components. We will continue to focus on Reading Transport Limited and Brighter Futures For Children Limited which are both significant components, and Homes for Reading remains review scope only for our 2020/21 audit. We are aware that all the subsidiaries follow FRS102 for their accounts preparation, while the Council's group accounts follow the CIPFA Code, supported by IFRS.	We: ▪ 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; ▪ Where exceptions were identified, we requested management's assessment and reviewed it for reasonableness; ▪ Instructed the relevant component auditors to report to us under the group accounting policies; ▪ Checked additional disclosure requirements in the Group accounts of the Council. Our work on Group accounts and accounting is ongoing and we will provide an update at the Audit & Governance Committee meeting once completed.
<u>Potential error in the accounting treatment of cash reconciling items in main bank account reconciliation</u> 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. 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: ▪ Obtained management's revised bank reconciliations for the main bank account/s. ▪ Performed a review of the bank reconciliation of the main accounts focusing on the bank reconciling item and testing at lower thresholds. ▪ Assessed the accounting treatment of the reconciling items and trace the journal entries made to identify any inappropriate treatment. Our work on the Bank Reconciliations is ongoing and the following are the adjustments noted by the audit team and made by management: • Adjustment to write off unsupported cash reconciling items amounting to £0.892m • Adjustment to correct the stale cheque maintained in the cash reconciling items amounting to £0.611m Note that these adjustments are under review and are still to be agreed with management and we will provide an update at the Audit & Governance Committee once completed. See Section 4 for full details of the adjustments.

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 matters that we report on

What is the risk/area of focus?	What did we do?
New Central Government Grants and Other COVID-19 Funding Streams Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies. We know that Reading Borough Council received £13.27m in Covid-19 Grants during 2020/21 The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.	We considered the Council's judgement on material grants received in relation to whether it is acting as an Agent, where it has determined that it is acting as an intermediary or a Principal, where the Council has determined that it is acting on its own behalf. We: ▪ Have selected a sample of Covid-19 grants received in year, for each item in our sample we have reviewed the Council's accounting treatment as agent or principal. We have sought technical support on the treatment of two grants received in year. ▪ Agreed with the accounting treatment applied by the Council with no issues. The work is substantially complete and subject to internal review. We will provide an update at the Audit & Governance Committee meeting.
Inappropriate infrastructure asset recognition and derecognition An issue was raised in 2022 via the NAO's Local Government Technical Group as to whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for replaced components that needs to be de-recognised when the subsequent expenditure is added. This may also lead to issues related to the reporting of gross historical cost and accumulated depreciation as elements of depreciated historical cost. This is a national issue impacting the majority of clients holding material infrastructure assets. Asset registers do not tend to record infrastructure capital expenditure with sufficient detail to enable identification of prior cost of replaced parts/components and related accumulated depreciation. Given this lack of record keeping, it is not possible to identify the cost and accumulated depreciation balances that need to be de-recognised. The issues effects additions to infrastructure from 2010/11 when IFRS was adopted by the CIPFA code of practice. Infrastructure Assets have a Gross Book Value of £307.4 m as at 31 March 2021.	We have: ▪ Reviewed the time-limited legislation passed in December 2022 to address the matter; and ▪ Assessed the Council's proposed response, including any associated accounting adjustments and disclosures, to the revised legislation. Our work in this area is on-going and we will provide an update at the Audit & Governance Committee.

03 Draft Audit Report

Draft Audit Report 2020-21 to be updated

Reading Borough Council 2020-21

The audit report will be communicated at the conclusion of the audit. We will update the Audit and Governance Committee regarding this matter at the next meeting.

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 £0.236 million (audit difference) which the audit team and management identified during the course of our audit. These adjustments were discussed by the audit team and the management and are subject to our internal review process hence changes may be made as necessary.

Factual Misstatement

- Adjustments relating to the write off of unsubstantiated and unsupported cash reconciling items amounting to a total £1.186m. The adjustment increases corporate support services expenses and decreases cash and cash equivalent balances.
- Adjustment to reverse impairment on investment to subsidiaries (Homes for Reading) recognised in the previous year amounting to £0.529m. This increases the long term investments and decreases corporate support services expenses.
- Adjustment to record the adjustment in valuation of the Oracle and other properties amounting to £3.532m. The adjustment decreases the property, plant and equipment by £3.532m and increases environment and neighbourhood services expenses relating to the impairment of Oracle amounting to £3.590m and associated increases in the revaluation reserve amounting to £0.06m.
- Adjustments relating to the valuation of Hostels under other land and building of property plant and equipment. The adjustment increases property, plant and equipment and reduces environment and neighbourhood services expenses (reversal of impairment loss charged to comprehensive income and expenditure) amounting to £0.660m.
- Adjustment to correct the reported balance of bad debt provision for bus lanes and special parking. The adjustments increase environment and neighbourhood services expenses and decrease short term debtor (i.e. allowance for bad debts) by £0.563m.
- Entry to adjust the additions made to the Mapledurham playing field capital expenditure from REFCUS to infrastructure assets. The adjustments increases the infrastructure assets and decreases environment and neighbourhood services expenses amounting to £0.768m.
- Entry to adjust unsupported debit balance in short term creditors amounting to £0.446m. The adjustment increases short term creditors and increase corporate support services expenditure by the same amount.
- Adjustment to derecognise unsubstantiated professional fees capitalised in asset under construction of property plant and equipment. The adjustment increases housing revenue account expenses and decreases asset under construction by £0.442m.
- Adjustment to reverse professional fees recorded in duplicate by the council. The adjustment increases housing revenue account expenses and decreases the surplus/deficit on revaluation of non-current assets amounting to £0.442m
- Adjustment to accrue additional audit fees for 2019/20. The adjustment increases corporate support services expenses and short term creditors by £0.334m. This adjustment is as a result of the additional audit fees communicated to PSAA for their approval that took place in September 2023.

Audit Differences (continued)

Summary of adjusted differences agreed to date (continued)

Reclassification Misstatements

- Adjustment to reclassify intercompany balances from short term debtors to short term creditors. The adjustment reduces short term debtor and short term creditor amounting to £0.527m
- Adjustment to reclassify short term creditors to short term debtors. The adjustment decreases the short term debtor and short term creditor by £0.643m.
- Adjustment to reclassify provision relating to the rent guarantee scheme from long term provision to bad debt provision amounting to £1.016m. The adjustment decreases the long term provision and decreases short term debtor by the same amount.
- Adjustments to reclassify incorrectly mapped corporate support services income amounting to £2.442m to corporate support services expenses and environment and neighbourhood services income amounting to £0.065m to environment and neighbourhood services expenses. The adjustment decreases both corporate support services income and expenses by £2.442m and decreases both environment and neighbourhood services income and expenses by £0.065m.
- Adjustments to reclassify expenses incorrectly mapped as income amounting to £0.558m. The adjustments decreases environment and neighbourhood services income and expenses by the same amount.
- Adjustment to reclassify PFI interest expense amounting to £0.241m from housing revenue account expenses to financing and investment income and expenditure.

The presentational and disclosure amendments in the statement of accounts is to be communicated once the final draft of the statement of accounts is reviewed and all amendments have been reflected in the accounts. This will be communicated as part of the conclusion and finalisation phase of the audit.

The following are the uncorrected audit adjustments identified by the audit team greater than our reporting threshold of £0.236 million. These adjustments have been communicated to the management, however no agreement were made yet whether the management will be reflected in the final statement of accounts.

Factual Misstatement

- Adjustment relating to stale cheques identified as part of our review of the cash reconciling items. The adjustments increases corporate support services expenditure and decreases cash and cash equivalents by £0.610m

*Projected Misstatement (Extrapolated Error)**

- Adjustments relating to the unsupported BFfC agency costs amounting to £0.600m. The adjustment decreases short term creditors and payroll expense costs by the same amount.

**Projected misstatements involves projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.*

05 Value for Money

Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

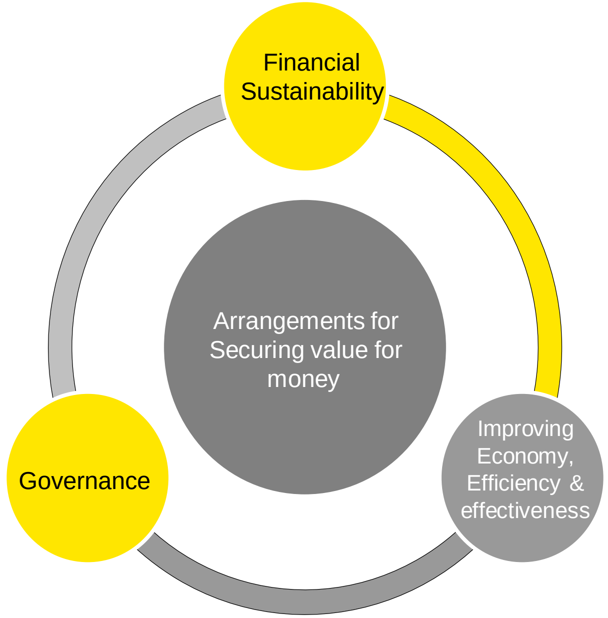
We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21.

We are finalising our risk assessment work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place.

As at the date of this report we have identified 2 Significant Risks in respect of assessing the previous weakness in arrangements reported in 2019/20.

The qualification in 2019/20 was in respect of 2 of the 3 sub-criteria under the previous VFM arrangements: Informed Decision Making with a focus on maintaining a sound system of internal control and Working with Partners and Third Parties.

We will provide an update at the September Audit & Governance Committee meeting. This update will also include the timelines for receipt of the VFM Commentary and our conclusions against each of the three sub-criteria.



Value for money

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as Ofsted) and other bodies; and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the audit & governance committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to complete our detailed VFM work. We are also likely to focus on the governance arrangements the Council has established to ensure that informed decisions are taken on policies and projects likely to have a significant impact on the Council's medium term financial plans and finances.

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 2020/21 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 2020/21 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 not yet completed the review of the Annual Governance Statement.

Whole of Government Accounts

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

Given the delays in certifying the 2020/21 accounts we are not required to complete the certification as the national WGA certification for 2020/21 as the WGA process has been completed and closed for further submissions. This was also the position for the 2019/20 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. As at the date of this report we have not identified 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 as at the date of this report that we need to draw to the attention of the Audit & Governance Committee.

07 Assessment of Control Environment

Assessment of Control Environment – 2018/19, 2019/20 and 2020/21

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 control deficiencies previously reported in 2018/19 and 2019/20 and to assess the status of these issues. These issues were identified to still be existing based on the audit procedures we performed for financial year 2020/21. The control deficiencies were identified from our assessment of control environment is derived from the assessment on the audit adjustments in our substantive procedures.

As our work on other areas are on going for 2020/21, additional findings of our assessment of control environment as part of our completion of the remaining procedures.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the financial year 2018/19 and 2019/20 audit. At the completion of the audit we will issue a formal management letter containing all of the identified points including any additional findings for 2020/21.

	High	Moderate	Low	Closed	Total
Issues raised in FY 2018/19	1	1	1	7	10
Issues exist in both FY 2018/19 and 2019/20	0	2	0	0	2
Issues raised in FY 2019/20	3	5	1	1	10

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/ Findings	Reconciliations were not performed between subsidiary ledger or other reports to the general ledger	Rating	

Observation

During the walkthrough process and our substantive procedures for financial year 2018/19 to 2020/21, we noted various account in which reconciliations were not performed by the client on the timely manner. In FY 2020/21, the remaining accounts which we were not able to observe any proper reconciliation is performed is as follows.

- No reconciliation performed between the general ledger account and subsidy claim form to determine the correct amount of housing benefit expenditure.
- 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.

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

2020/21 Response
We continue to focus on the reconciliations and this control has been tightened further during 2022/23. The Council has continued the process to identify and clear suspense items in a timely manner is maintained as a regular monthly activity, monitored through a controls dashboard.

We are looking to focus our future resources on any gaps in the reconciliations outside of the core finance team.

Assessment of Control Environment – Reported in 2018/19 (continued)

Area/ Findings	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:

- No review or approval process observed for the inputs in the supplier database.
- There was no authorisation required for the receipt of goods in the system
- Any employee can raise an invoice and set up a customer account.
- There were no set guidelines for evaluating request to raise credit notes.

The control recommendation is that a proper review and approval process should be made across all the account.

Management comment

2020/21 Response
Processes have continued to be maintained as described for supplier input checks and authorisation of goods receipt notes.

The creation of customer accounts is mainly undertaken by the Accounts Receivable team, but where appropriate this task is also undertaken by directorate staff who are given specific user roles to perform this function.

Assessment of Control Environment – Reported in 2018/19 (continued)

Area/ Findings	Control environment surrounding transactions between the Council and Brighter Futures for Children	Rating	

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.

In FY 2019/20 and 2020/21, the number of adjustments were significantly reduced, however there were few other adjustments we noted as part of our substantive testing. We recommend that the thorough review should be continued accordingly to further resolve any issues that would arise.

Management comment

2019/20 Response
This is an area where we continue to improve our processes and recognise that in order to return to a timely basis for publishing the Statement of Accounts each year we need to have easily reconcilable inter-company transactions and a robust consolidation process.

We have identified and rectified a number of discrepancies on our own reconciliations between Reading and its subsidiaries, during our quality assurance work.There is always an issue of timing whereby a debt may be settled by one party and not yet recorded in the accounts of the other. Hence, we have a year end agreed position where any discrepancies can be identified, to ensure they are not material in nature or value.

It has been the case in previous years, due to perceived expediency, that codes have been used consistently marked as "sundry debtors" to identify the transactions as relating to Inter-company. This is of course counter-productive, so we have been working to ensure that we have all the codes available to mitigate the need to use Reading only codes and to make those inter-company transactions transparent and easy to isolate and reconcile.

It is fair to say that this area has been steadily improving and we can be more confident that we have eliminated the appropriate inter-company transactions in our group accounts and both parties understand what the year end position is. The final accounts team has supplemented the work undertaken by the service finance teams on inter-company reconciliations.

2020/21 Response
A line by line reconciliation is undertaken by the Final Accounts Team. We now believe we have a strong control in place to identify and reconcile inter-company transactions in order to produce robust Group Accounts.

Assessment of Control Environment – Reported in 2018/19 and 2019/20

Area/ Findings	Bank reconciliation was incorrectly performed and was not carried out frequently	Rating	

Observation

From FY 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 management cannot provide explanation for some of the reconciling items reported in the bank reconciliation.

During the audit of FY 2020/21, we were able to obtain reconciling items from the bank reconciliation, however we note issues in relation to stale cheques and unsupported reconciling items which were identified by the audit team and the management. See Section 4 for the audit differences noted.

We recommend that a proper bank reconciliation should be carried out and reviewed by the senior management of the team. The management should also perform a clean-up on the cash control accounts code to arrive at the genuine cash reconciling item balance.

Management comment

2019/20 Response
Bank reconciliations are now brought up to date and related control improvements have been implemented together with a continual approach taken to identify suspense items and clear them in a timely manner. Two relevant and independent Internal Audit reports have been issued and these both give Reasonable Assurance assessments

2020/21 Response
Bank Reconciliations are up to date and a continued process to identify and clear suspense items in a timely manner is maintained as a regular monthly activity, monitored through a controls dashboard.

In regards to the "stale cheques" these have been investigated and written out of the accounts in 21/22.

Assessment of Control Environment – Reported in 2018/19 and 2019/20

Area/ Findings

Inconsistencies in the supporting documents received and the records of the starters and leavers

Rating

Observation

Our substantive testing on the starters and leavers during the 2018/19 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:

2018/19 Findings

- Some employees have signed their contract after the start date
- Some employees signature is not contained in the contract or the contract has not been provided at all
- Significant number of instances were noted that there were missing leaver paperwork and/or leaver forms are not signed.

2019/20 Findings

- Inconsistency in the start date as per the first payslip and the starter form for some of the new joiners
- Last pay slip date is after the leave date for some of the leaver sample selected

2020/21 Findings

- Inconsistency in the start date as per the first payslip and the starter form for some of the new joiners
- Some of starter's forms and/or employment contracts are not received nor signed
- Leaver notification/evidence of resignation is not received.

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

2020/21 Response

The processes for starters and leavers have been maintained since the 2018/19 accounts period and is subject to normal management controls and checks when information is processed.

It is acknowledged that due to the volumes of transactions process there may be instances of inconsistences, however they are mitigated as best they can be by management review. it should be noted that the employee is most likely to raise any inconsistencies for resolution.

Assessment of Control Environment – Reported in 2019/20 and 2020/21

Area/ Findings	Untimely reconciliation of the sundry debtor subsidiary ledger to general ledger	Rating	

Observation

During our audit of 2018/19, 2019/20 and 2020/21, we noted that sundry debtor (i.e., system debtor) reconciliation was not performed on a timely manner which resulted to reconciliation difference between the subsidiary ledger (Academy Report) and the amount reported in the general ledger. This also resulted to an unaccounted difference of £0.25m in 2020/21 (2019/20: £0.49m) which we raised as uncorrected difference in our summary of audit difference.

The difference is mainly caused by the untimely generation of the report from Academy as at 31 March which resulted to difference in the reported balance in general ledger. We recommend that the management ensure that a report is generated as at 31 March and reconciliation is performed on a timely basis to avoid the occurrence of unaccounted difference.

Management comment

2019/20 Response
The Academy system was migrated on the 1 May 2021, so there is no longer the need for a reconciliation between the two systems.
In order to achieve this, a reconciliation and data migration exercise was undertaken at the time.

An AR reconciliation as at 31/3/21 has been completed which included AR extract at 31 March and this has been made available for 20/21 audit fieldwork testing.

2020/21 Response
The circumstances have remained the same as responded to in May 2023. We are confident that we have an appropriate reconciliation.

Assessment of Control Environment – Reported in 2019/20 and 2020/21

Area/ Findings	Untimely recording of intercompany transactions and completion of intercompany reconciliation with Council and BFfC	Rating	

Observation

During our 2019/20 audit of short-term debtor and short-term creditor we noted differences in intercompany balance between the Council and BFfC. The management reviewed the difference in the intercompany balance reported in the audited accounts of BFfC and in the accounts of the Council. As a result, the management noted three adjustments that was corrected in the accounts of the Council. These adjustments could have been avoided if the intercompany transactions are recorded timely and proper reconciliation of intercompany reconciliation is conducted.

During our 2020/21 audit, management have noted intercompany adjustments between BFfC and the Council. The amounts are insignificant as compared to FY 2019/20 which indicated the solutions were implement by the management to reduce any further errors. See Section 4 of this report for details of the adjustment

We recommend that the management should continue performing proper intercompany transactions and balances reconciliation on a timely manner. We would also recommend that management maintain a specific general ledger account for all intercompany transactions between its subsidiaries to easily account for any inconsistencies.

Management comment

2019/20 Response
Agreed. This is an area where we continue to improve our processes and recognise that in order to return to a timely basis for publishing the Statement of Accounts each year we need to have easily reconcilable inter-company transactions and a robust consolidation process. We have identified and rectified a number of discrepancies on our own reconciliations between Reading and its subsidiaries, during our quality assurance work.

There is always an issue of timing whereby a debt may be settled by one party and not yet recorded in the accounts of the other. Hence, we have a year end agreed position where any discrepancies can be identified, to ensure they are not material in nature or value.

It has been the case in previous years, due to perceived expediency, that codes have been used consistently marked as “sundry debtors” to identify the transactions as relating to Inter-company. This is of course counter-productive, so we have been working to ensure that we have all the codes available to mitigate the need to use Reading only codes and to make those inter-company transactions transparent and easy to isolate and reconcile. It is fair to say that this area has been steadily improving and we can be more confident that we have eliminated the appropriate inter-company transactions in our group accounts and both parties understand what the year end position is. The final accounts team has supplemented the work undertaken by the service finance teams on inter-company reconciliations.

2020/21 Response
A line by line reconciliation is undertaken by the Final Accounts Team. We now believe we have a strong control in place to identify and reconcile inter-company transactions in order to produce robust Group Accounts.

Assessment of Control Environment – Reported in 2019/20 and 2020/21

Area/ Findings	Scanning function in Fusion was incorrectly capturing invoice amounts	Rating	

Observation

In our review and verification of transactions in expenses and short-term creditor, we noted an issue relating to the scanning function in Fusion which incorrectly captures invoice amounts. The management was able to rectify and adjust the incorrect recorded invoice amounts from the samples we selected.

During our review and testing of FY 2020/21, we noted few issues on the scanned invoices amounts recorded as compared to the previous which the management have corrected the entries. However, the issue still exists regarding the scanning function and if instances would occur that the Council may have overlooked such incorrectly recorded invoice amounts, this may result to a significant error in the accounts. Therefore, we recommend that the Council can either discontinue using this function of the Fusion or remediate the problem with the system developer.

Management comment

2020/21 Response
Any scanning issues are identified they are corrected.

The Council is implementing a new finance system, e5, which will have new invoice scanning functionality (DB Capture) which has been tested successfully. The new system is scheduled to be implemented on 1 November 2023.

Assessment of Control Environment – Reported in 2019/20 and 2020/21

Area/ Findings	Sundry creditors brought forward balance was still outstanding	Rating	

Observation

In our review of the sundry creditors balances as at 31 March, we noted long outstanding brought forward balances amounting to a total of approximately £1.7m (2019/20: £1.3m) which were not cleared/settled by the Council.

We recommend that the management revisit the related brough forward balances and perform a clean up process to determine whether the related balances can be cleared or settled.

Management comment

2019/20 Response
Agreed. This is clearly an important control area and we have been working hard to identify the nature of outstanding balances and to eliminate them when they are no longer supportable. As with previous issues, we are working on historical balances which clearly take longer to investigate. This is an area of continual improvement, and we are confident that in the current year we will have a far more robust position for both creditors and debtors.

2020/21 Response
A great deal of work has taken place to ensure that outstanding debtors and creditors are reconciled and valid. We have reviewed our balance sheet and corrected data which has become out of date or unsupported. This work enables us to have a greater degree of assurance for subsequent years accounts and migration of data to the new finance system.

Assessment of Control Environment – Reported in 2019/20 and 2020/21

Area/ Findings	Recharges between departments were not posted in the correct account	Rating	

Observation

In our substantive procedure in expense accounts, we noted recharges between service lines that were incorrectly posted in income accounts. As per the nature of the recharges, the balance should be reported as a reduction in expense from one service line and recorded expenses to another. Though, the recharges do not have any impact on the net cost of services, it would affect the gross amount presented as income and expenditure in the net cost of service. The management and audit team noted adjustments relating of misclassification between income and expenditure in FY 2019/20 and 2020/21. The management agreed to reclassify the balance between income to expenditure.

To avoid such error to occur again, we recommend that a review of recharges workings and journal entries should be made by the management to ensure that none of the recharges are recorded under income accounts.

Management comment

2019/20 Response
Agreed. This has been a key area which we have discussed with the auditors and have agreed with the findings that although the net position remains the same, its is important that we do not over-report the expenditure and income for these areas.
With this in mind we have changed the “mapping” of these charges and hence they will be netted down in the future. It is also notable that we have found some areas ourselves whereby this treatment is also applicable. We can therefore be confident for 19/20 and subsequent years that this issue has been addressed.

2020/21 Response
Agreed. We continue to review these recharges and similar entries. We have agreed and amended several areas of mapping to give a more appropriate view of the impact of recharges.

Assessment of Control Environment – Reported in 2019/20 and 2020/21

Area/ Findings	GROUP - Review of the group consolidation working paper should be performed.
Rating	
Observation	During our review of the group consolidation working in FY 2019/20 and 2020/21, we noted some exceptions in the consolidation workings of the Council and its subsidiaries. These includes some balances which was not pulled out correctly from the audited accounts of the subsidiaries, eliminating entries not correctly presented in the consolidations and notes that were not updated correctly. To remediate the issue, we would recommend that the management perform a thorough review of the group consolidation working paper and the basis of consolidated amounts presented in the notes.
Management comment	Agreed. We continue to improve this area and are aware that the adjustments needed have fallen in number and we now have a far more robust process which we continue to review and improve.

Area/ Findings	BFFC - Untimely recording of intercompany transactions and completion of intercompany reconciliation
Rating	
Observation	The component auditors of BFfC reported that there are number of transactions that should be provided by the Council via the service level agreement have been overlooked, are not being completed efficiently and recorded in the BFfC accounts. These transactions were agreed and adjusted in the BFfC account Similar to the Council, we recommend that the management perform a proper intercompany transactions and balances reconciliation on a timely manner. We would also recommend that management maintain a specific general ledger account for all intercompany transactions between its subsidiaries to easily account for any inconsistencies.
Management comment	Agreed. We have appropriate management codes within our finance system to enable us to identify and reconcile inter-company transactions.

Assessment of Control Environment – Reported in 2019/20 and 2020/21

Area/ Findings	BFfC – Improper record keeping of employee related documentations
Rating	
Observation	During testing on payroll balances of the component auditors, it was noted that certain documentation, including offer letters, P45s and salary increase letters, were not held and there were no records of these being kept for various members of staff. Our 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. This will be discussed with HR and payroll to ensure the documentation is complete prior to updating payroll records.

Area/ Findings	BFfC – Incorrect accounting treatment of VAT by BFfC
Rating	
Observation	As reported by the component auditors, BFfC treats the services provided by Council as subject to VAT and subsequently recovers the VAT on the expenditure. There is a risk that HMRC may consider the services as an exempt supply, which could make BFfC liable to penalties. As a result of the above treatment an error in quarter 2 VAT return of BFfC was noted which resulted to a discrepancy in 2019/20 £0.98m. The We would recommend that the management revisit and review and apply the correct accounting treatment for VAT in BFfC.
Management comment	The VAT processes and controls have remained the same, are up to date and correct. The error described is historic and we are confident of our VAT treatment and the checks that are undertaken to ensure that each element of inter-company activity is treated correctly for VAT purposes.

08 Data Analytics

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 2020/21, 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.

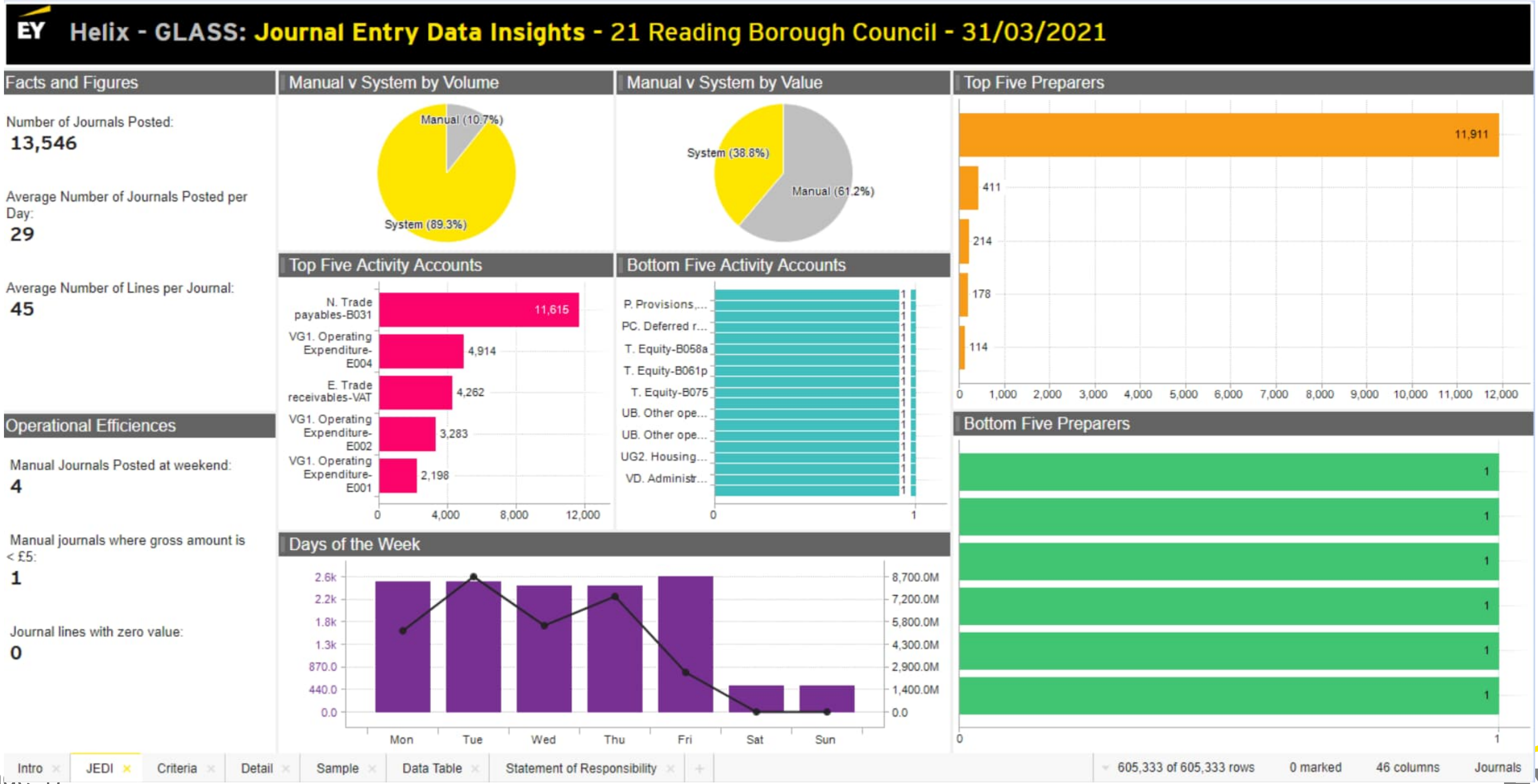
Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then 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 2020/21. 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

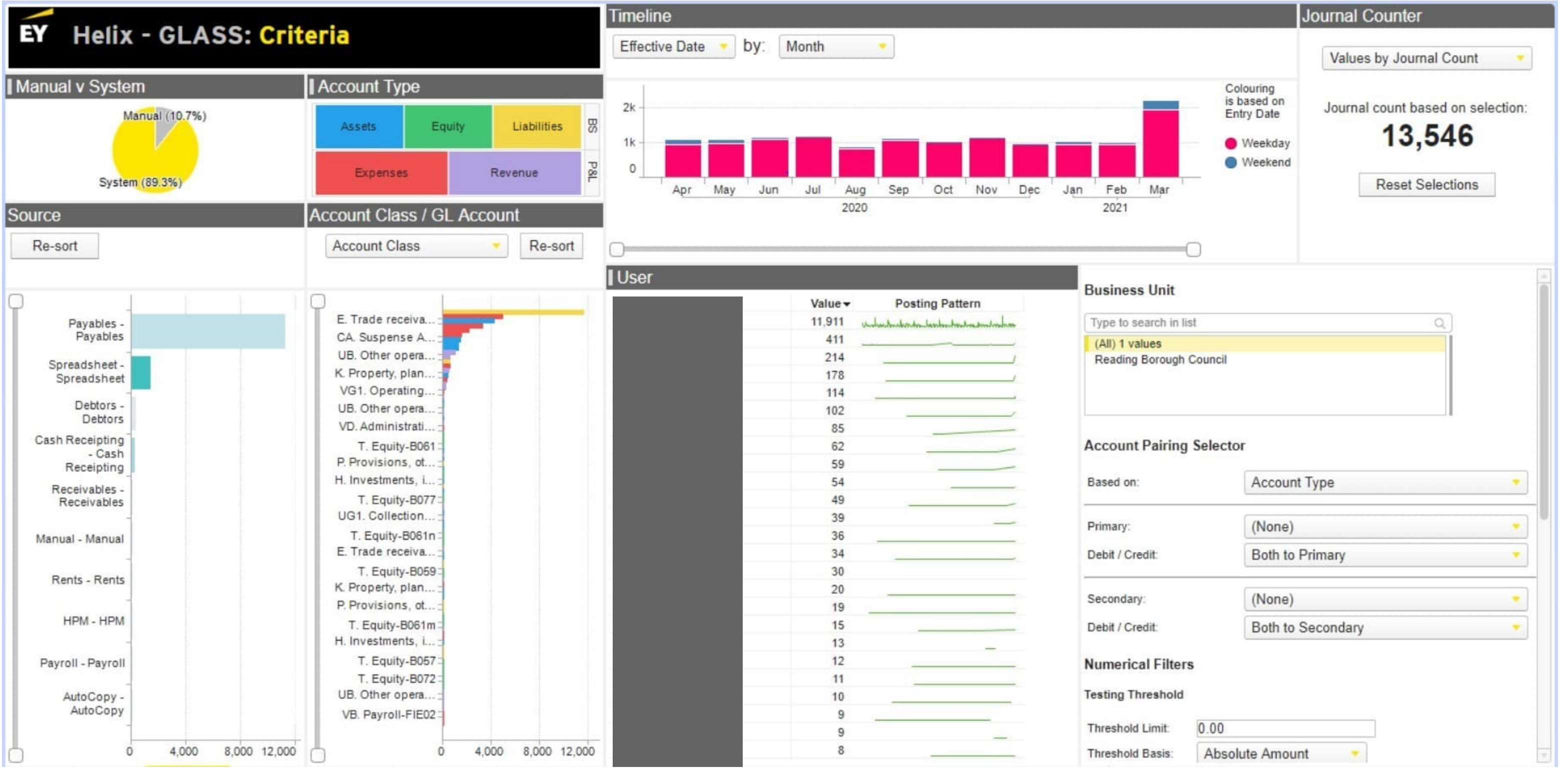
What is the risk?

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 2021



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.

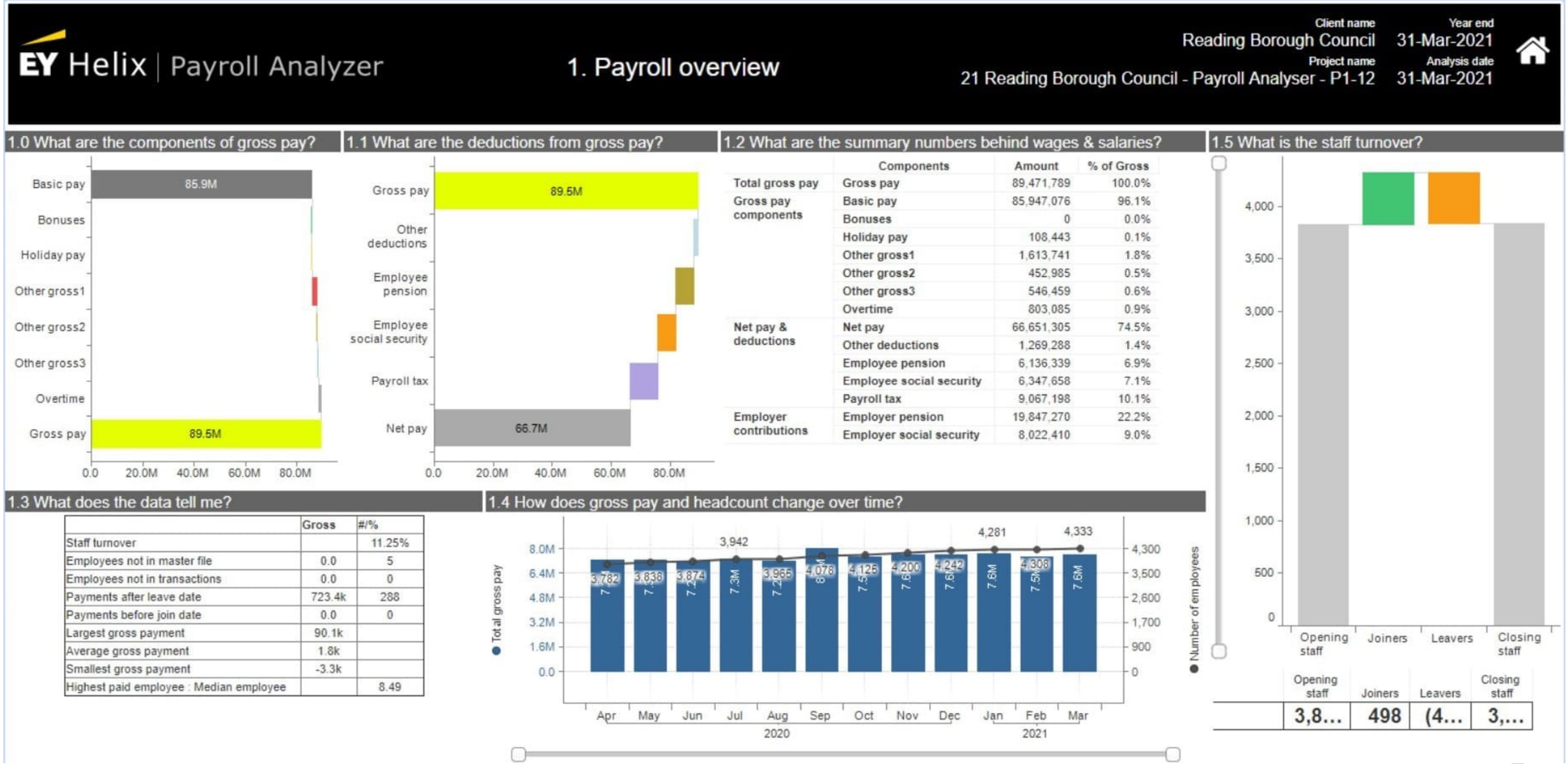
We then performed tests on the journals identified to determine if they were appropriate and reasonable.

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 2020/21. 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	% of Gross
Total gross pay	Gross pay	89,471,789	100.0%
Gross pay components	Basic pay	85,947,076	96.1%
	Bonuses	0	0.0%
	Holiday pay	108,443	0.1%
	Other gross1	1,613,741	1.8%
	Other gross2	452,985	0.5%
	Other gross3	546,459	0.6%
	Overtime	803,085	0.9%
Net pay & deductions	Net pay	66,651,305	74.5%
	Other deductions	1,269,288	1.4%
	Employee pension	6,136,339	6.9%
	Employee social security	6,347,658	7.1%
	Payroll tax	9,067,198	10.1%
Employer contributions	Employer pension	19,847,270	22.2%
	Employer social security	8,022,410	9.0%

	Gross	#/%
Staff turnover		11.25%
Employees not in master file	0.0	5
Employees not in transactions	0.0	0
Payments after leave date	723.4k	288
Payments before join date	0.0	0
Largest gross payment	90.1k	
Average gross payment	1.8k	
Smallest gross payment	-3.3k	
Highest paid employee : Median employee		8.49

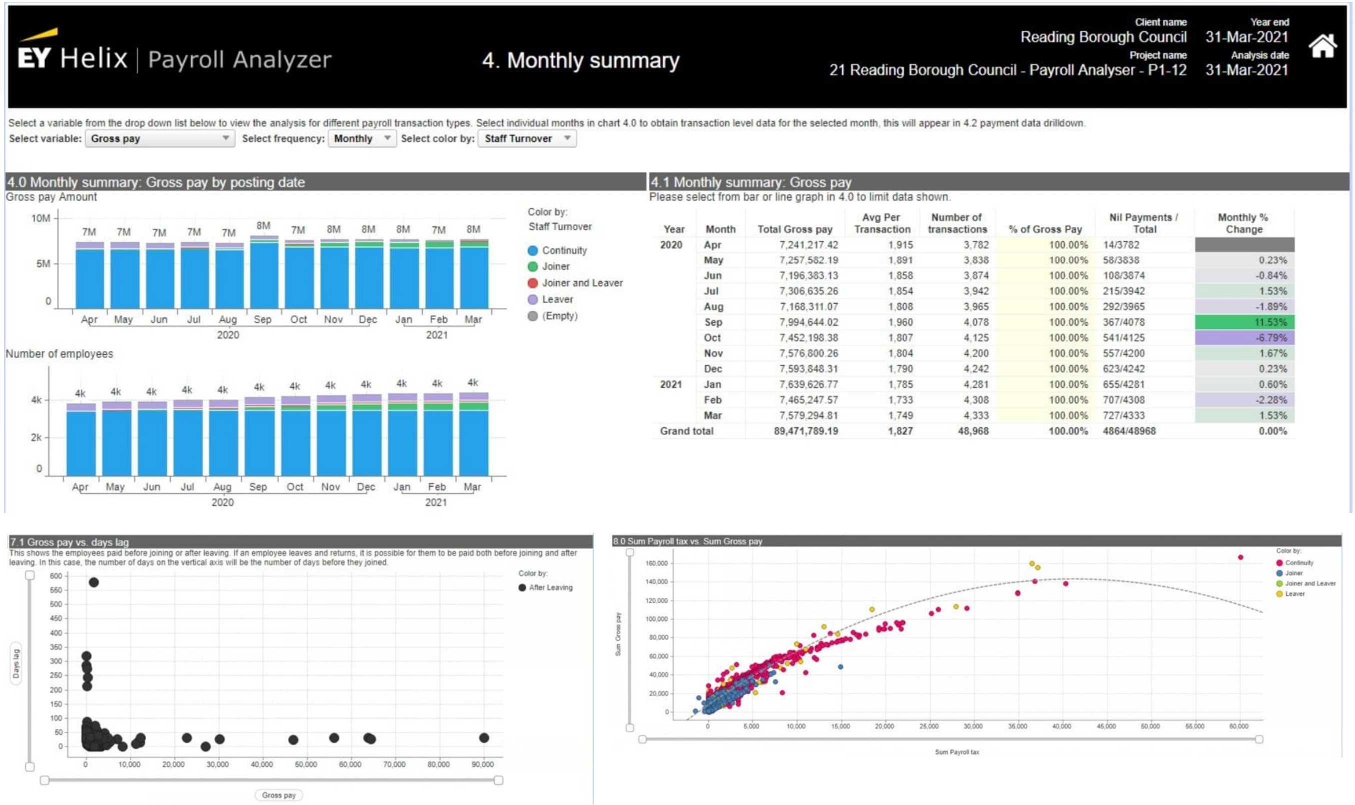
Data Analytics

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 2021



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 2023.

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 27 September 2023.

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 2021 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 2021.

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 2020/21	Scale Fee 2020/21	Scale Fee 2019/20	Final Fee 2018/19
	£	£	£	£
Total Audit Fee – Code work	TBC**	108,938	108,938* + Additional fee TBC	382,905*
Housing Benefits	TBC	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 2019/20 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. The proposed additional fees for 2019/20 is still under review and approval of PSAA.

** Given the issues identified in the 2019/20 audits, the VFM qualification in 2019/20 and 2020/21 and the increased risk profile of the audit from previous qualifications, there will be additional fee on the 2020/21 audit. As the audit is still not complete we have not yet agreed this additional fee. Similar to 2019/20 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

Appendix A

Audit approach update

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

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

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

We have change the approaches in the property, plant and equipment and classified each property group according to their valuation methods. See the details of the changes below.

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
BS – Property, plant and Equipment	Split between specific valuation methods	Substantively tested all relevant assertions	The split of property, plant and equipment was made to appropriately associate the risks identified to the appropriate valuation method.
BS – Property, plant and Equipment – EUV	Substantively tested all relevant assertions and associated risks accordingly	Included inside the overall property, plant and equipment	
BS – Property, plant and Equipment – EUV SH	Substantively tested all relevant assertions	Included inside the overall property, plant and equipment	
BS – Property, plant and Equipment – DRC	Substantively tested all relevant assertions	Included inside the overall property, plant and equipment	
BS – Property, plant and Equipment – Historical cost	Substantively tested all relevant assertions and associated risks accordingly	Included inside the overall property, plant and equipment	

Appendix B

Summary of communications

Date	Nature	Summary
January 2023	Report	The draft 2020/21 Audit Plan, including confirmation of independence, was issued to the Audit & Governance Committee.
January – September 2023	Meeting	The audit team met weekly with the finance team including the Director of Finance to review the query log and discuss progress on the audit
January – September 2023	Meeting	The Partner and senior members of the audit team met with the Audit & Governance 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 2020/21 audit and also the indicative planned timescales for completion of the 2021/22 audit.
April 2023	Report	The draft 2020/21 Audit Results Report, including confirmation of independence, was issued to the Audit & Governance Committee.
April 2023	Meeting	The Partner and senior members of the audit team met with the Audit & Governance 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 2020/21 audit and also to discuss significant findings arising from the 2020/21 audit.
September 2023	Report	The draft 2020/21 Audit Results Report, including confirmation of independence, was issued to the Audit & Governance Committee.
September 2023	Meeting	The Partner and senior members of the audit team met with the Audit & Governance 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 2020/21 audit and also to discuss significant findings arising from the 2020/21 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 2023 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 2023 Audit & Governance Committee
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process • Findings and issues regarding the opening balance on initial audits	Draft Audit results report presented to the April 2023 & September 2023 Audit & Governance Committee meetings

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Draft Audit results report presented to the April 2023 & September 2023 Audit & Governance Committee meetings
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Draft Audit results report presented to the April 2023 & September 2023 Audit & Governance Committee meetings
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 2023 & September 2023 Audit & Governance Committee meetings
Fraud	• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	Draft Audit results report presented to the April 2023 & September 2023 Audit & Governance Committee meetings

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: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	Draft Audit results report presented to the April 2023 & September 2023 Audit & Governance Committee meetings
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report and Draft Audit results report presented to the April 2023 & September 2023 Audit & Governance Committee meetings

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Draft Audit results report presented to the April 2023 & September 2023 Audit & Governance Committee meetings
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 • 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 2023 & September 2023 Audit & Governance Committee meetings
Group Audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report and draft audit results report presented to the January 2023 Audit & Governance Committee. Draft Audit results report presented to the April 2023 & September 2023 Audit & Governance Committee meetings

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 2023 & September 2023 Audit & Governance Committee meetings
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 2023 & September 2023 Audit & Governance Committee meetings
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Draft Audit results report presented to the April 2023 & September 2023 Audit & Governance Committee meetings
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report and draft audit results reports presented to the January 2023, April 2023 & September 2023 Audit & Governance Committee meetings
Value for Money Reporting	• VFM Commentary and conclusions	Auditors Annual Report including VFM Commentary to be presented to the January 2024 Audit & Governance Committee meeting

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 2020/21 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	EY to review all evidence supporting the use of the Going Concern assumption for the preparation of the 2020/21 Council and Group Statement of Accounts	Management and EY
Income and Expenditure (I&E) Testing	EY to complete final review of I&E testing and to complete assessment of errors identified	Management and EY
Property, Plant and Equipment (PPE)	EY to complete final review and documentation of PPE sample testing. Outcome from testing by EY internal specialists to be considered and communicated to officers.	Management and EY
IAS 19 Pensions Liability Testing	EY to conclude work on IAS 19 Liability testing subject to the	Management, EY and Deloitte
Short term debtors and Short term creditors	EY to conclude on the other areas under short term debtors and short-term creditors. Please note that samples or clarification may be raised depending on the review of the balances.	Management and EY
All other disclosures	EY team to complete work on all other disclosures as part of the adjustments in the account.	Management and EY
Group	Work required to complete work on Group scoping	Management and EY
Value for Money (VFM)	EY to complete review of VFM for 2020/21 and to assess the potential for a modification of the Value for Money Conclusion	Management and EY
Internal review process	EY to complete the internal review process within the team (i.e., first level, partner in charge and engagement quality reviewer reviews)	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 2021. 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 2021 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 2020/21 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 2020/21 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 2020/21 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 2020/21 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 27 March 2023.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and Council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
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.

L. 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 2020/21 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.

M. 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 2020/21 .

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.

N. 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,

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Darren Carter - Director of Finance

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Councillor Josh Williams - 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. • 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. • 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. • 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.

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