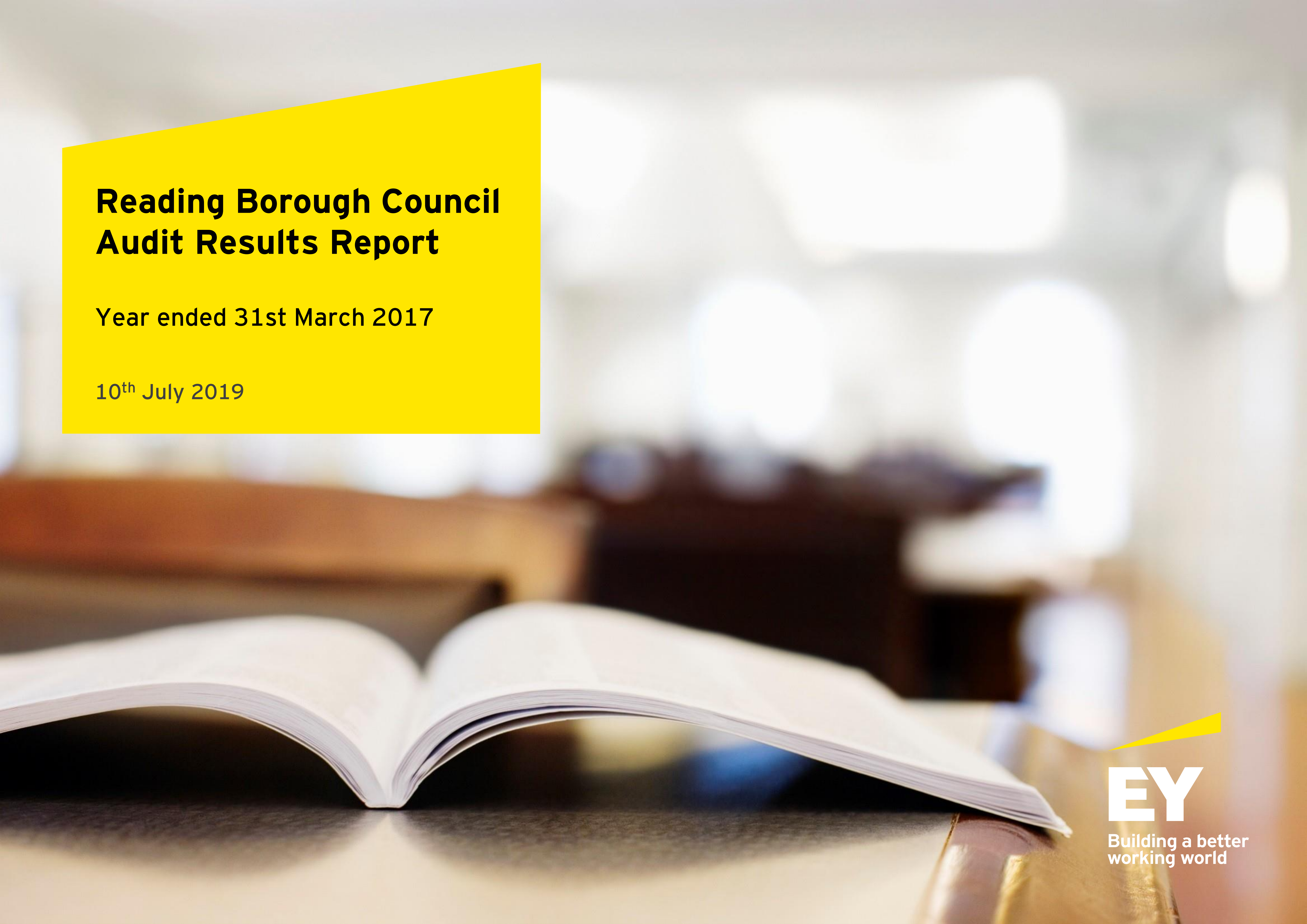


Reading Borough Council
Audit Results Report

Year ended 31st March 2017

10th July 2019

EY
Building a better working world

Private and Confidential

10th July 2019

Dear Audit and Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Reading Borough Council for 2016/17.

We have substantially completed our audit of Reading Borough Council for the year ended 31st March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue a qualified audit opinion on the financial statements in the form at Section 3. The Council have missed the statutory deadline of 30th September 2017. We are also reporting a number of matters about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Given the difficulties experienced by the Council to produce the 2016/17 accounts, and the number of control deficiencies identified during our audit, the Council has also failed to meet the statutory deadline for the production and certification of the 2017/18 and 2018/19 statements. We plan to begin our work on these in August 2019.

This report is intended solely for the use of the Audit and Governance Committee Members, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 23rd July 2019.

Yours faithfully

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Reading Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Reading Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Reading Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the January 2017 Audit and 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 scope but we note other changes to our plan below:

- Changes in materiality

We updated our planning materiality assessment using the final draft statements and have also reconsidered our risk assessment throughout the audit. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £4,692,490 (Audit Planning Report – £3,874,160). This results in updated performance materiality, at 50% of overall materiality, of £2,346,245, and an updated threshold for reporting misstatements of £234,624. This is the materiality used in the draft version 8 of the unaudited financial statements received in July 2017. We have updated our materiality receipt of each subsequent version of the financial statements.

- Use of specialists

In addition to those specialists outlined in the planning report (EY pensions team and EY Estates team) and due to the issues and complexities identified with the draft 16/17 accounts presented to us, we used the following additional specialists.

Additional Specialist used	Scope of specialist
EY Technical Expert	Due to the poor quality of the 16/17 draft accounts presented to us and the speed in which they were assembled, we required the support of a technical expert from our Financial Accounting Advisory Services (FAAS) team. The expert performed a cold review of the draft accounts & identified 94 possible separate issues assigning them as either material or trivial.
Private Finance Initiative (PFI) Expert	Due to lower materiality levels applied in 2016/17 as a result of the issues identified on the audit in the previous year, the reduction in journal controls from the previous year and the emerging issues on capital accounting, more focus was placed on the PFI figures disclosed in the accounts. Due to the complexity of the accounting entries we instructed our EY expert to review both the Housing and Waste PFI schemes. Significant issues were found in the PFI models and these have been subsequently corrected by the Council. See the '*audit differences*' section in this report for further detail.

Executive Summary

Scope update

- <u>Changes in audit strategy</u>

As our risk assessment increases, we require more persuasive audit evidence from substantive procedures to reduce our audit risk to an acceptably low level and draw reasonable conclusions on which to base our opinion. As a significant number of errors had been identified with the draft accounts, in March 2018 we increased our risk assessment across all areas of the accounts.

- <u>Changes in the audit team</u>

Due to the significant issues identified on the audit the Audit Partner introduced an Engagement Quality and Compliance Reviewer (EQCR) onto the engagement. The EQCR was used to challenge the audit team on key judgements and to further support the quality of the conclusions reached on the audit. Adrian Balmer also replaced Alan Witty as the senior manager with responsibility for the audit.

- <u>Additional Significant Risk – Administration and Maintenance of Property, Plant and Equipment Fixed Asset Register including accounting for the 2 PFI schemes</u>

The review of the accounts from our technical expert highlighted significant issues with the Fixed Asset Register and how the Council were accounting for their Property, Plant and Equipment. Consequently, we identified this area as a significant risk due to the complexity of the work to be carried out and also given the material nature of the PPE balances within the financial statements.

- <u>Group scoping</u>

Reading Transport Limited (RTL) and Reading – Hampshire Property Partnership (RHPP) were reviewed and given the values involved, or the nature of the disclosures made within the financial statements, were both subsequently revised to be within scope for the 16/17 audit based on either qualitative and/or quantitative grounds.

- <u>Audit Fee</u>

The changes identified here to our initial audit plan and the ongoing delay in being unable to certify the financial statements have entailed additional unexpected costs. A detailed analysis of fees can be found in section 9 of this report.

Status of the audit

We have substantially completed our audit of Reading Borough Council's financial statements for the year ended 31st March 2017 and have performed the procedures outlined in our audit planning report and also the additional procedures referred to on the previous slides as scope changes. Subject to satisfactory completion of the outstanding matters set out in appendix B we expect to issue a qualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

Executive Summary

Audit differences

Aside from the areas of qualification we identified 2 unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit and Governance Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £ £1.241 m. We agree with management's assessment that the impact is not material. Details can be found in Section 5 Audit Differences,

We have also identified a significant number of audit differences which have been adjusted by management. Details can be found in Section 5 Audit Differences.

As part of the audit we also identified a number of adjustments which also impacted on the prior period balances and these have been corrected through Prior Period Adjustments. Further details of the nature of these and the values involved can be found within the Letter of Representation as detailed at Appendix B.

Objections and correspondence from members of the public

We have received a number of items of correspondence in relation to the 2016/17 accounts from members of the public.

We have considered each of these carefully and concluded that they have not had any impact on our financial statement opinion or value for money conclusion. We therefore plan to issue our completion certificate along with our opinion and value for money conclusion.

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 along with other area's of audit focus identified since the issue of the audit plan.

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;
- There are no other significant issues to be considered.

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

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, we have updated our understanding of key processes and the controls which are in place to detect or prevent error. Through this work we have identified significant deficiencies in the design or operation of internal control that might result in a material misstatement in your financial statements. We have set out these findings in Section 6 of this report.

We previously issued a Section 24 Statutory Recommendations for improvement report to the council in February 2017. The recommendations arising from that report feature in our modified VFM opinion as included in our audit opinion at Section 3.

Value for money

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

We have a number of matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources including our follow up of the Section.24 recommendations made to the Secretary of State in 2015/16 in line with our statutory reporting powers. Where we have previously issued S.24 recommendations we are required to follow up on the progress the Council has made against these recommendations.

Other reporting issues

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

We have no other matters to report.

Independence

We have no matters relating to our Independence to bring to your attention.

Please refer to Section 9 for our update on Independence.

02 Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. For this local government body, our assessment of risk focused on procedures in the following areas:

- Revenue expenditure funded from capital under statute;
- Property, plant and equipment additions; and
- Income and expenditure disclosed within the Comprehensive Income & Expenditure Statement (CIES).

What did we do?

We:

I. Sample tested and reviewed the appropriateness of the items classified as Revenue Expenditure Funded From Capital Under Statute;

II. Sample tested Property Plant and Equipment additions during the 16/17 year to ensure appropriate capitalisation;

III. Sample tested the population of income and expenditure disclosed within the CIES and reviewed underlying documentation for reasonableness and business purpose;

IV. Ensured income and expenditure sampled had been accounted for in the correct financial year;

V. Reviewed the reasonableness of the revenue and expenditure policies and checked the council were following these;

VI. Sample tested and reviewed income and expenditure accruals to check appropriateness and accuracy;

VII. Reviewed and discussed with management accounting estimates for evidence of possible management bias. E.g. Equal pay provision; and

VIII. Tested all material journals posted that have unusual back dating.

What are our conclusions?

As part of our testing we identified a number of material errors in revenue and expenditure recognition and have further detailed the nature and value of these adjustments at Section 4 – Audit Differences.

Despite these errors we did not identify any instances of the manipulation of revenue and expenditure recognition as a direct result of fraud.

We have reported issues across a number of areas such as capital additions and accruals. Our conclusions here are that the nature of the errors were not indicative of fraud but rather due to a basic lack of understanding of key accounting principles.

As a result, and also in relation to the qualified opinion issued on Debtors and Creditors we have issued an 'except for' audit opinion on Comprehensive Income and Expenditure as per the opinion included at Section 3 within this report.

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. For this local government body, our assessment of risk focused on procedures in the following areas:

- Completeness of provisions;
- Completeness and valuation of creditor and debtor accruals;
- Valuation of property, plant and equipment; and
- Manual journal postings.

What judgements are we focused on?

I. Completeness of provisions including Business rates appeals;

II. Estimate of pension liability;

III. Manual accruals; and

IV. Valuation of PPE.

What did we do?

I. We tested the appropriateness of material manual journal entries recorded in the general ledger near year end and all journals posted by senior management throughout the year;

II. We searched for specific journal descriptions that may identify journals posted by individuals solely on the instruction of more senior staff;

III. We reviewed accounting estimates for evidence of management bias such as PPE valuations. We achieved this with assistance from our EY Estates team;

IV. We evaluated the business rationale for any significant unusual transactions;

V. We searched for unrecorded liabilities after year end to ensure completeness of provisions and accruals;

VI. We agreed the IAS 19 disclosure to the actuary report and challenged estimates used.

What are our conclusions?

We have identified material weaknesses in controls as detailed within this report which have resulted in a number of material adjustments and also the proposed qualification of a number of key areas of the financial statements – See Section 3 of the Audit Report.

However we have not identified any evidence of management override.

We have identified a number of instances of inappropriate judgements being applied which have resulted in a number of material mis-statements which have resulted in qualifications across a number of significant accounts. Further details of the qualification can be found at Section 3 and the scale and degreed of the errors identified can be found at Section 4.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

Significant risk

Final Accounts Closedown

What is the risk?

We experienced significant delays in completing our audit of the Statement of Accounts in 2015/16. We experienced delays in receiving the working papers we needed and the required supporting information. We raised a number of recommendations in our Audit Results Report and management have committed to improve performance this year.

At planning stage we considered it unlikely that all the issues would have been rectified in the time available since we issued the report therefore there was still a risk of issues arising from our audit

What did we do?

I. Discussed with management early on our requirements before the start of the closedown process and provided a document (Client Assistance Schedule) detailing our requests in advance for evidence/ working papers in each area of the accounts;

II. Held regular meetings with management throughout early 2017 to help us identify potential issues early on;

III. Gave a presentation to relevant Council staff on '*What is good Audit Evidence*' before the start of the audit;

IV. Reviewed work papers when they were made available to ensure they are appropriate before the commencement of the year end audit;

V. Promptly raised our concerns in relation to delays and issues arising to key members of staff during the year end audit; and

VI. Instructed our technical expert from our Financial Accounting Advisory Services to review the draft statement of accounts to help identify potential issues.

What are our conclusions?

We identified the following issues in the initial unaudited versions of the financial statements presented for audit:

- Poor quality working papers which did not easily tie through to the figures as per the financial statements and so caused further delays in seeking explanations;
- Delays in the receipt of working papers despite pre-agreed timelines;
- Difficulties in obtaining appropriate audit evidence to conclude on a balance. This was relevant across a number of areas but specifically an issue initially on journals and Debtors and Creditors;
- Lack of quality control arrangements in place in delivery of the financial statements. The various initial versions of the unaudited financial statements would have benefited from a strong quality control process; and
- Lack of adherence to key guidance which resulted in numerous unnecessary adjustments if the guidance had been appropriately applied.

The final agreed version of the financial statements, except for the areas of qualification, now addresses some of these concerns.

Significant risk

Completion of bank and control account reconciliations

What is the risk?

Our work in the previous year identified a lack of controls account reconciliations across a number of areas. These should be completed and reviewed at least monthly. In addition the cash and bank reconciliation was not being completed and reviewed.

These issues were raised in the Section 24 Schedule 7(2) Recommendations report to Council and in addition we included a significant risk in our plan as these weaknesses can cause issues with the financial statements completeness and accuracy.

What did we do?

I. Lead senior provided a presentation at the beginning of the audit to a handful of finance staff on what a system reconciliation is and what would be required as audit evidence from the Council;

II. Obtained an understanding of which reconciliations were being carried out, if any;

III. Reviewed reconciliation working papers in the attempt to agree balances to system reports and obtain audit evidence of large reconciling items to confirm they have been addressed.

What are our conclusions?

It became apparent that none of the key system control reconciliations had been carried out during the year, including cash.

31st March 2017 Cash Reconciliation was finally completed and provided to our audit team on 22nd February 2018.

Although a system generated accounts payable reconciliation was provided to EY, it was identified that staff were posting journals into the AP control code and therefore this report was invalid.

We identified that the Revenue and Benefits team were comparing the debtor balances held on Academy and on Oracle Fusion but there was then no follow up on trying to clear down reconciling items and these balances were simply being rolled forward – circa £4-5 m.

We concluded that appropriate controls were not in place throughout the period of account and also these were not rectified in a timely manner following the year end.

Significant risk (new significant risk added since planning)

Administration and maintenance of the Property, Plant and Equipment fixed asset register including accounting for the 2 Private Finance Initiative (PFI) Schemes

What is the risk?

As part of the 2016/17 closedown of the financial statements the Council was using an Excel based Fixed Asset Register (FAR). The administration and maintenance of the FAR was heavily reliant on human inputs and there were no automated aspects involved. Given the material nature of the PPE balances within the FAR, and their sensitivity to minor changes, the FAR was susceptible to producing materially incorrect outputs which in turn had significant and material consequences in numerous accounts within the financial statements. In addition there was no recognised capital accountant in place for the 2016/17 closedown. The accounting entries, administration and maintenance of the FAR were completed by a retired external consultant. The use of a retired consultant raised potential issues with Continuing Professional Development and access to the most up to date sector guidance and accounting developments. This included consideration of the accounting treatment in respect of the two PFI schemes which the Council was involved in. These were the Waste PFI and also the North Whitley Housing PFI.

What did we do?

1. We interrogated the FAR to determine the validity of the balances supporting the 2016/17 financial statements;
2. We assessed the FAR to ensure that Property, Plant and Equipment values as per the valuer reports was consistent with the values uploaded to the FAR;
3. We discussed the logic of the FAR with key practitioners within the Council to understand the key assumptions and principles supporting the operation of the FAR;
4. We looked at the approach to valuations and key assumptions used supporting the accounting for PPE;
5. We involved internal valuation specialists to support the work in this area;
6. We involved an internal PFI specialist to support the work in this area; and
7. We involved an internal technical specialist to support the work in this area.

What are our conclusions?

We identified the following issues arising from Property, Plant and Equipment and PFI in the initial versions of the financial statements presented for audit:

- Difficulties in verifying the logic behind certain transactions due to the inherent limitations in using an Excel based FAR i.e. unable to re-run reports to understand where certain values were derived from and figures being ‘hard-coded’ with the FAR and associated capital working papers;
- Inefficiencies when tracking values between multiples years and the requirement to have to navigate between multiple spreadsheets tracking back to 2007/8 in some instances to verify the validity of balances as disclosed in the 2016/17 financial statements;
- Non-adherence to a number of key accounting and valuation concepts including key guidance issued in the CIPFA Code of Audit Practice. This has resulted in a number of significant and material adjustments including a number of prior period adjustments in the final audited statement of accounts; and
- Errors in the PFI models across a number of assumptions and inputs. These have been corrected and any differences in the models are now within accepted ranges with a number of differences offsetting to reduce the overall impact.

Based on the work completed above and the adjustments made the PPE and PFI balances are materially correct.

Other areas of audit focus

What is the risk/area of focus?	What did we do?	What are our findings?
Risk of understatement of Equal pay Provision	I. Made enquiries with Head of Finance around how the provision was calculated and what key assumptions were used; II. Recalculated provision based on EY judgement and assumptions; III. Collected external information on settlements to assess assumptions used for the provision, including inspecting bank statements for payments made.	Based on information available at the time the provision amount of £14m appears to be reasonable. This was further evidenced by payments and settlements which have subsequently took place in 2017-18. No issue identified.
Valuation of Property, Plant and Equipment: We found errors in 2015/16 PPE balances and found it difficult to find supporting evidence for some items. There is a risk that supporting information might not be available for some items in the accounts.	I. Instructed our EY estates team to review a sample of assets (across the asset classifications) to ensure valuations are appropriate; II. Instructed our EY technical expert to review the Fixed Asset Register to ensure the accounting within this is appropriate; and III. Audit team reviewed the associated disclosures within the accounts to ensure compliance with the standards and the council's own policies.	EY estates team reviewed a sample of assets and all assets sampled were found to be within the lower and upper end of the range determined by the estates team. This work was reviewed in turn by the audit team. We completed significant work on the revised Fixed Asset Register following the full revaluation exercised and this was found to be fully reconciled to the ledger and the supporting disclosure notes. The required adjustments were followed through and agreed. The audit team reviewed the associated disclosures and agreed the revised disclosures in respect of Property, Plant and Equipment

Other areas of audit focus

What is the risk/area of focus?	What did we do?	What are our findings?
Financial Statements Presentation – Expenditure and Funding Analysis (EFA) and Comprehensive income and expenditure statement	Reviewed the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code. Audit team were assisted by our EY technical expert.	**Many issues identified:** • EFA was set out as a core financial statement which is incorrect and not code compliant; • The 'Adjustments between accounting and funding basis under regulation' in the EFA should be equal and opposite signage to the MIRS accounts – but was found not to be; • The values in the EFA in both years are different, the MIRS is £9.521m greater in 15/16 and £8.435m greater in 16/17. The balances shown were incorrectly reconciled and the EFA needed revising; • Where column 1 of the EFA includes material items of income and expenditure that are named in Para 3.4.2.99 of the code these required to be analysed in the disclosure note over the named segment – no such note had been included; and • Column 1 of the EFA does not reconcile to items reported to decision makers as set out in the Narrative Foreword

Areas of Audit Focus

Accounting Standards Issued But Not Yet Adopted

The CIPFA Code confirms that application of IFRS 15 'Revenue from Contracts with Customers' does not apply to Local Government entities for 2017/18.
It is expected that the standard will be applied for years commencing 1 January 2018 onwards which, for Local Government entities, is the financial year ended 31 March 2019.

The standard is not expected to have a significant impact on most Local Government clients as the majority of funding is drawn down from parliament; however any other income streams will need to be considered against the criteria in the standard.

Management have not yet formally completed an assessment of the impact of IFRS 15 at Reading Borough Council.

We will work with management to understand the process for reporting under IFRS 15 once the reporting requirements for the sector are confirmed in the Department CIPFA Code Accounting Manual 2018/19.

Other standards which have been issued include IFRS 9 and IFRS 16. These relate to Financial Instruments and Leases respectively. We will also liaise management in respect of these standards when they are required to be incorporated within the CIPFA Code of Practice on Local Council Accounting and will use our technical colleagues as necessary to support the finance team as necessary.

Areas of Audit Focus

Other matters

- **Significant difficulties encountered during the audit & discussed with management:**

The audit team experienced a number of significant difficulties during the 2016/17 audit. In summary a large number of these difficulties arose as a result of the control failures detailed within this report and expanded on at Section 7 – Assessment of the Control Environment.

The control failures noted made the audit very difficult to execute and resulted in significant additional input from the EY audit team and also staff at the Council at all levels. The most significant of these were in respect of Journals and the lack of key control account reconciliations. We have also included other issues which were regarded as significant difficulties:

1) Journals:

Journal controls were not in effect for the period 2016/17 and as a result numerous errors arose from the fact that inexperienced staff were able to prepare and post journals with incorrect debit and credit entries. This not only resulted in incorrect postings and therefore inaccurate financial reporting but often when the errors were being unwound further errors were then identified which exacerbated the initial error and resulted in significant additional time to correct. In addition numerous journals were found to have no supporting documentation supporting the journal entry as this was one of the controls that had been removed during 2016/17.

2) Control Account Reconciliations:

It was also noted that key control account reconciliations were not being completed during 2016/17. This included key monthly control account reconciliations on key accounts such as Cash, Debtors and Creditors. Regular reconciliations are a fundamental aspect of financial management and the non-completion of these key reconciliations increased the risk to the Council not only in respect of error but also potentially fraud.

3) Significant accounts & inability to provide fully reconciled supporting breakdowns:

As part of our testing of key material balances within the financial statements we request breakdowns supporting the balances as per the financial statements. For a number of Significant accounts the Council were unable to supply the audit team with a supporting listing for them to select samples for further testing. This was particularly relevant to Debtors and Creditors testing. This caused significant delays in the completion of testing in these areas and also further questions around the validity of the balances as per the financial statements. Given the inability to obtain the supporting figures for Debtors and Creditors we have qualified these accounts in our audit report as per section 3 within this report.

4) Quality Control & Oversight:

Our initial review of the various initial versions that we were originally presented with highlighted significant quality control deficiencies. It was clear that the accounts as presented for audit had not been appropriately quality controlled. In addition working papers as initially presented were not of the standard expected and often did not tie through to the financial statements. Again this resulted in numerous errors which could have been prevented. It was also apparent that key aspects of the CIPFA Code and Guidance Notes which are used to support an ISA compliant set of financial statements had not been followed. Again this resulted in further errors and additional work across a number of key areas. This lack of quality control added significant additional time and expense to the approval of the financial statements. It also increased the risk profile of the audit given the fundamental nature of the errors being identified.

Areas of Audit Focus

Other matters (continued)

5) Inability to provide appropriate audit evidence:

Across a number of significant areas of the accounts the Council were unable to supply appropriate audit evidence supporting the balances sampled. This was particularly an issue in journals where controls in respect of supporting documentation had slipped. However we also identified issues in this respect in other key areas most notably Debtors and Creditors. As a result the Council were unable to verify the existence of a number of balances selected for testing. As existence of a balance is a key audit assertion failure to confirm existence results in a fail and as such we have seen large extrapolated errors in accounts such Debtors and Creditors as a result. Further details in respect of the value of these extrapolated errors can be found at Section 4 – Audit Differences.

6) Staffing of the Finance Team:

As part of the initial stages of the audit we identified instances of inexperienced staff or staff without the appropriate qualifications in the finance team being involved in key positions within the closedown of the financial statements. This resulted in numerous errors within the financial statements. The nature of the errors identified reflected a basic lack of understanding of key accounting principles with debit and credit entries often used incorrectly. Similarly, the lack of an in-house capital accountant exacerbated issues with the closedown of the Property, Plant and Equipment entries within the financial statements. We should note that as a result of some of the issues identified within this report, we have seen significant changes made to the wider finance team following a wholescale review whereby staff were made to reapply for all positions.

7) Inadequate Accounting Software – Property, Plant & Equipment Fixed Asset Register:

Property, Plant & Equipment (PPE) balances within the financial statements are usually, with the IAS 19 pension entries, the most significant by value in the financial statements. The accounting for PPE can also be challenging and pervasive impacting many different accounts and disclosures within the financial statements. The council closed down their 2016/17 financial statements using an Excel based Fixed Asset Register (FAR). The administration and maintenance of the FAR was overly burdensome and prone to a higher likelihood of human error given the lack of automation. The majority of other councils we audit use recognised FAR software which automates to a large extent the entries required for the financial statements. The use of a recognised FAR facilitates easier auditing of the outputs and gives greater confidence in the material correctness of the entries impacting on the financial statements due to the inherent controls and functions within the software. We should note that since then the council have since purchased an off the shelf local government specific FAR and so going forward we would expect to see less issues arising from the administration and maintenance of the FAR and greater efficiencies from the automation in effect.

Areas of Audit Focus

Other matters (continued)

- **Written representations that we are seeking**

Given the nature of the findings and the significant delay in certifying the 2016/17 financial statements we are seeking a number of representations from management. The letter of representations, including the specific representations, can be found at Appendix C within this report.

- **Expected modifications to the audit report:**

As a result of the nature and pervasiveness of some of the errors across key significant accounts we will be modifying the audit report i.e. issuing a qualified audit report. The modified audit report can be found at section 3 within this report.

03 Audit Report

Draft qualified audit report

Reading Borough Council 2016-17

Our opinion on the financial statements

We have audited the financial statements of Reading Borough Council and Group for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Reading Borough Council and Group Movement in Reserves Statement;
- Reading Borough Council and Group Comprehensive Income and Expenditure Statement;
- Reading Borough Council and Group Balance Sheet;
- Reading Borough Council and Group Cash Flow Statement;
- Related Notes 1 to 43;
- Related Group Notes 1 to 5;
- Housing Revenue Account Income and Expenditure Statement;
- Movement on the Housing Revenue Account Statement;
- Collection Fund; and,
- Related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Qualified opinion

In our opinion the financial statements:

- give a true and fair view of the financial position of Reading Borough Council and Group as at 31 March 2017 and of its expenditure and income for the year then ended, except for the following areas: short-term creditors; short-term debtors; comprehensive income and expenditure statement; and IAS 19 scheme assets;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of Reading Borough Council and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion except for the areas as outlined below.

During the audit we identified a number of significant control deficiencies which included, for example, no journal controls, no control account or bank and cash reconciliations and no clear control over the year-end financial closedown processes.

We have not been able to obtain sufficient appropriate compensating audit evidence in relation to the following areas: short-term creditors; short-term debtors; IAS 19 scheme assets and the following lines that make up the cost of services part of the comprehensive income and expenditure statement: Adult Care and Health Services; Corporate Support Services; Children, Education and Early Help Services; Environment and Neighbourhood Services and Housing Revenue Account. Given the material uncertainty in these areas and the fact that we have been unable to obtain the required level of assurance, we cannot form an opinion on the material correctness of these accounts.

Draft qualified audit report

Reading Borough Council 2016-17

Our opinion on the financial statements

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Resource's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Narrative Report set out on pages 3 to 12, other than the financial statements and our auditor's report thereon. The Director of Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Qualified conclusion Adverse

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2016, we are not satisfied that, in all significant respects, Reading Borough Council and Group put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

In respect of the following we have matters to report by exception:

- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act

Draft Qualified Audit Report

Reading Borough Council 2016-17

Our opinion on the financial statements

Under Section 24 of the Local Audit and Accountability Act 2014, we may designate any audit recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

On 2nd February 2017 we issued a report containing recommendations concerning the Authority's corporate governance designated under Section 24 Schedule 7(2).

Responsibility of the Director of Resources

As explained more fully in the Statement of the Director of Resources Responsibilities set out on page 40, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

Draft Qualified Audit Report

Reading Borough Council 2016-17

Our opinion on the financial statements

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the Reading Borough Council and Group had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Reading Borough Council and Group put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Reading Borough Council and Group had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for Adverse Conclusion

Informed decision making:

- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance information

We found that the financial and performance information used by the Council is not always accurate and reliable and therefore did not help informed decision making.

- Reliable and timely financial reporting that supports the delivery of strategic priorities

We found that the financial reporting was not reliable throughout 2016/17.

- Maintaining a sound system of internal control

We found that some of the basic financial controls were not working as expected, for example, the regular completion of reconciliations is not timely, the year-end bank reconciliation did not balance and there were no control procedures over the production or posting of journals during financial year 2016/17. This increases the risk of fraud and errors remaining undetected.

Sustainable resource deployment

- Planning finances effectively to support the sustainable delivery of strategic and maintain statutory functions

We found that the action to achieve sustainable savings during 2016/17 did not deliver the required savings. The 2016/17 outturn was an overspend of circa £7.5million and required the use of reserves to balance the budget. The Council were also predicting the use of reserves in 2017/18.

Draft Qualified Audit Report

Reading Borough Council 2016-17

Our opinion on the financial statements

- Children's Services

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

It concluded that Children's services in Reading are inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The Inspection found that children are left too long in situations of unknown and acute risk.

The Council accepted the findings of the Inspection and put in place procedures to improve performance. Ofsted have monitored progress since the issue of its initial a report and in its update letter, issued in June 2017 concluded that the Council was not making the expected progress in improving services for its children and young people.

- Section 24 recommendations

We issued recommendations under Section 24 Schedule 7 (2) of the Local Audit and Accountability Act 2014. The Council have developed an action plan to monitor progress against the recommendations. We have reviewed the actions taken and concluded that whilst the Council have a challenge on both the financial position and strengthening their controls and processes, there are signs of improvement:

- more robust financial monitoring;
- clearer reporting and more consistent messages on the position;
- detailed savings plans which have been discussed and agreed with Members; and
- work continues on the financial position and reporting.

However deficiencies in the systems of internal control remain.

Adverse conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are not satisfied that, in all significant respects, Reading Borough Council and Group put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the accounts of Reading Borough Council and Group in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Reading Borough Council and Group, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Reading Borough Council and Group, and Reading Borough Council and Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Maria Grindley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
Xx July 2019

The maintenance and integrity of the Reading Borough Council and Group web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 known differences above £2,346,245

As reported in our Audit Planning Report; we highlight here the following known misstatements greater than 0.5% of gross expenditure (£2,346,245) which have been corrected by management that were identified during the course of our audit.

CASH:

- £12.15M Re-classification error between Short Term Investments and Cash.

RECEIVABLES & PAYABLES:

- £3.2M Overstatement of debtors. Debtor incorrectly raised in relation to overspend incurred by schools.
- £4.2M Overstatement of debtors (understatement of cash). Cash received 31st March 2017 but not matched against debtor.
- £2.6M Understatement of debtors & overstatement of creditors due to prepayments being incorrectly included with creditors.

FIXED ASSETS:

- £9.9M incorrectly classified as Assets Held for Sale as they do not meet the required criteria.
- £26.4M incorrectly classified as Investment Property as assets are not held for this purpose.
- £14.1M Understatement of PPE, incorrect Social housing factor applied to council dwellings
- £3.2M Understatement of PPE due to incorrect application of impairments
- £7.2M Overstatement of infrastructure assets as a result of incorrect depreciation calculation
- £13.4M Re-classification of assets from Infrastructure to Vehicles, plant and equipment
- Multiple material adjustments across PPE resulting from revised valuations on PPE as at 31.3.16, 01.04.16 and 31.3.17. A number of these resulted in Prior Period Adjustments. Further material adjustments to the PFI's resulting from a revision to the model.

BORROWINGS:

- £4M overstatement of Short Term Borrowings (& overstatement of cash) since this amount was re-paid on 31st March 2017.

INCOME & EXPENDITURE:

- £3.4M Overstatement of income and expenditure as a result of incorrect journaling of Public Health Grant
- £9.9M Overstatement of income as a result of a collection fund adjustments
- £8M Overstatement of expenditure and reserves as a result of a prior period collection fund adjustment
- £16.7M Overstatement of income & expenditure as a result of PFI adjustment
- £18.5M Overstatement of expenditure – incorrect accounting of impairment reversals HRA
- £5.4M Overstatement of expenditure due to incorrect accounting entries on disposals of assets

Audit Differences

For the benefit of the Audit and Governance Committee and considering the nature and complexity of the 16/17 audit we would also like to bring to your attention the corrected known adjustments above £234,624 (5% of materiality).

Summary of adjusted known differences above £234,624

CASH:

- £1.1M understatement of cash balance and creditor balance due to creditor codes being mapped to cash

RECEIVABLES & PAYABLES:

- £607k Overstatement of debtors balance due to an error in OHMS balance being incorrectly reflected in the General Ledger.
- £966k Reclassification error, long term debtors incorrectly classified as short term
- £1.4M Reclassification error, short term debtors incorrectly classified as long term
- £668k Overstatement of creditors due to an error in OHMS balance being incorrectly reflected in the General Ledger.
- £476k Overstatement of creditors due to incorrect balance shown owed to Berkshire Pension Fund.
- £489k Overstatement of creditors – not a creditor at year end
- £650k Reclassification error of backdated care cost – should be classified as a provision
- £1.6M Overstatement of creditors (and cash) as paid on 31st March 2017 but not recorded.
- £2.2M Understatement of creditors (RIA) as a result of incorrect treatment of revenue grants
- £710k Reclassification error between creditors and debtors in relation to commuted sums.

FIXED ASSETS:

- £440k Omission of asset meeting 'Asset Held For Sale' criteria.

INCOME & EXPENDITURE:

- £1.1M Overstatement of income & Expenditure as a result of incorrect journaling of grants
- £849k Understatement of income & expenditure as a result of incorrect journaling of schools transferring to academies
- £1.6M Understatement of expenditure due to incorrect reversing of impairments in relation to two schools
- £1.0M Overstatement of expenditure. Impact on NDR levy as a result of the NDR provision adjustment.
- £243k Overstatement of expenditure. Prepayment in relation to Northgate Contract not appropriately recorded
- £850k Understatement of expenditure. Correction of movement of school cash and bank for 16/17 conversions of two schools
- £773k Understatement of expenditure due to incorrect reversals of impairments.
- £332k Understatement of grant income as quarter 4 payment not accrued

Audit Differences

For the benefit of the Audit and Governance Committee and considering the nature and complexity of the 16/17 audit we would also like to bring to your attention the corrected known adjustments above £234,624 (5% of materiality).

Summary of adjusted known differences above £234,624

PROVISIONS:

- £1.7M Understatement due to omission of Local Authority insurance provision
- £787k Overstatement of provisions – provision could not be supported
- £1.8M Reclassification error – Accumulated absences accrual should be included within creditors

GROUP ACCOUNTS:

- £1.4M Overstatement of Current Fixed assets and £969k understatement of Non- current assets as figures provided were up until 13th March 2017 only.
- £1.1M Overstatement of Current Liabilities and £839k understatement of Non current liabilities as figures provided were up until 13th March 2017 only.

PFI:

- £592k Waste PFI adjustment
- £845k Waste PFI adjustment – release of deferred income

Audit Differences

Summary of adjusted disclosure differences

We highlight the following material disclosure errors which have been corrected by management that were identified during the course of our audit:

Movement In Reserves Statement (MIRS):

- Statement did not meet the minimum disclosure requirement of the code.
- The reserve balances were shown as debit rather than credit balances.
- Misunderstanding of statutory movements and those between earmarked reserves

Expenditure and Funding Analysis Statement (EFA):

- Incorrectly disclosed as a primary statement & did not reconcile to the accounts & narrative forward
- Where column 1 of the EFA includes material items of income and/or expenditure that are named in Para 3.4.2.99 of the Code these required to be analysed in the disclosure note over the named segments. No such note had been included in the statement of accounts.

Balance Sheet:

- The Capital Grants Unapplied and the Capital Receipts Reserve were shown as General Reserves. These are usable reserves but are statutory reserves and are not part of the wider GF reserves.
- The signage in the reserves part of the statement was incorrect.
- Available for sale FIs and ST investments are quantitatively material but are not referenced to relevant notes in the disclosures.

Comprehensive Income and Expenditure Statement:

- The comparatives for the previous year merely show the net expenditure rather than full restatement which would be gross expenditure and income.
- The Council has not separately identified those material items of "Other Comprehensive I&E" between those that will be reclassified to the (surplus) or deficit on the provision of services and those that will not.
- NDR is shown net of the levy which is a material amount and therefore would expect to see separate disclosure of this amount.
- Para 3.4.2.43 of the Code requires an expenditure and income analysed by nature note of the CIES. This note must as a minimum show employee benefit expenses and depreciation, amortisation and impairment which it did not
- HRA income & Expenditure incorrectly recorded with Environmental income which is not in line with management reporting.

Group Accounts:

- Omission of Reading Hampshire property LTD within group accounts as the company is qualitatively material.
- The balance sheet shows a positive General Fund and a negative P&L on consolidation these should be merged showing a negative overall Group General Fund balance, which is the true position.

Audit Differences

Summary of adjusted disclosure differences

We highlight the following material disclosure errors which have been corrected by management that were identified during the course of our audit:

<u>Housing Revenue Account (HRA):</u>

- Incorrect Social Housing Factor had been used in the valuation of the HRA stock. This had a material impact on the valuation given the size of the HRA asset base.

<u>Note 1 – Statement of accounting policies:</u>

- Many policies were not code compliant / not reflective of processes actually followed by the council.

<u>Note 3 – Assumptions Made About the Future & Other Major Sources of Estimation Uncertainty:</u>

- Incomplete consideration of all key assumptions and major sources of estimation uncertainty.

<u>Note 7 – DACHS Pooled Budget Information:</u>

- Further clarification of key aspects of the specific arrangements in effect in respect of Pooled Budgets.

<u>Note 11 – Related Parties:</u>

- The Council had excluded the Reading-Hampshire Property Partnership on the grounds of quantitative materiality. However, for Group accounts it is qualitative materiality that is the initial consideration and a key component of that is the assessment of whether the organisation is delivering a key service, therefore should be consolidated.

<u>Note 15 – Amounts included in the MIRS:</u>

- Signage incorrect

<u>Note 16 – Exit Packages:</u>

- Errors identified within allocation of remuneration bandings

Audit Differences

Summary of adjusted disclosure differences

Note 18 – Non-Current Assets:

- The Code sets out a requirement for separate disclosure notes on PPE, investment properties and Assets held for sale but this had not been done.
- The table stated that impairment reversals are credit balances to gross book value when they are increases to the valuation and therefore debits.
- The policy stated that where there is expenditure on enhance of non-current assets if the in-year expenditure is less than 10% of the value of the assets then the expenditure is impaired and shown as an historic impairment. The impact of this treatment was such that the value of any single asset could potentially be understated by 10% which cumulatively could be material.
- There was no deminimis applied to capital expenditure as per the original accounting policy on non-current assets. It is commonly accepted that there should be a deminimis applied to capital expenditure .
- The valuation date of non-current assets was 1st April. The council could not evidence that a year end assessment had taken place to understand if the valuation date of 1st April was still materially correct for the effective valuation balance sheet date of 31st March.
- Surplus assets are covered by IFRS 13 and it is expected that the carrying value should be 'best use' value. The council could not demonstrate that this had been considered as part of the valuation programme.

Note 27 – Capital Commitments:

- Omission of one capital commitment over £1M
- Council were unable to provide a 16/17 figure for the Transport Consultancy Support commitment.

Note 31 – Post employment benefits:

- The current service costs shown in Note (a) does not agree to the current service costs shown in Note (b)

Note 32 – Contingent liabilities:

- Omission of contingent liability

Collection Fund:

- Income is shown as a debit rather than a credit balance meaning that as shown the statement does not cast
- The prior year comparatives do not separately identify council tax and NDR movements as required by the Code.
- The income total in the comparators has double counted the business rates receivable and been overstated by £109.335M with associated errors in the in-year movement and the closing balance amount.

Audit Differences

Summary of unadjusted judgemental differences

In addition we highlight the following judgemental misstatements to the financial statements and/or disclosures which were not corrected by management above £234,624. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

The Council were unable to provide sufficient support for the followings amounts (journal description included for reference):

RECEIVABLES:

- DR [£278,765] '*CSS 16-17 TRANSFER OF BALANCE FROM 16-17 TO 17-18 cc2406*'.
- DR [£446,979] 'Academy system Debtors/HB transfers - journal required'
- CR [£280,592] 'Academy - Internal differences in system per reconciliation (system balance is £13,625,882.88'
- CR [£466,722] 'Civica Cash journal required to R9826'
- CR [£918,167] 'Civica Cash correction required to R9826'

PAYABLES:

- [£325,975] *no journal description*
- [£264,087] '17-18 SEN provision'
- [£236,345] *no journal description*
- [£200,378] 'Transfer from AP control code (R-9886-9841-000000-00) - Recode AC DACHS AM Civica Bank Suspense 001Standard'
- DR [£506,682] 'Journals on 9886-9841 to be investigated (See reconciliation)'
- DR [£489,732] 'DCEEHS AJ 1617 ADJ 20ASundry Creditor/Debtor'
- DR [£466,054] 'Faster Payments/CHAPS correction (See reconciliation)'

ASSET DISPOSALS:

- [£985,188] 'Electronic Government (IEG) (2013-2014)'
- [£475,235] 'ESCR'
- [£79,772] 'Energy Management'
- [£227,283] 'Capitalisation (2011-2012)

ASSET ADDITIONS:

The council were able to provide support for the following additions but these errors have been classified as judgemental as they are pervasive across the cost centre.

- [£230,247] over accrued at year end and therefore incorrectly capitalised
- [£1,550] Legionella works on properties inappropriately capitalised as this constitutes maintenance. Search for the word 'Legionella' within cost centre journal descriptions gives £117,000 of incorrect capitalisation.
- [£1,239] fire risk assessments inappropriately capitalised as this also constitutes maintenance. Search for the word 'fire risk' within cost centre journal descriptions gives £130,000 of incorrect capitalisation.

Audit Differences

Summary of unadjusted judgemental differences

Extrapolation of errors identified within our sampling of Receivables and Payables.

PAYABLES:

- £8.5M extrapolation error

Total population of transactions under threshold of £115,000 = £17,034,181.
Total balance tested by EY was £19,811.07.
Total error within this amount £9,922.18
Error % = 50%.

RECEIVABLES:

- £5.5M extrapolation error

Total population of transactions under threshold of £234,000 (absolute value) = £13,753,820
Total balance tested by EY was £2,162,577
Total error within this amount £871,361
Error % = 40%.

As per the Executive Summary and also the Audit Report at Section 3 we have qualified on these balances and also the associated Comprehensive Income and Expenditure Accounts due to the material nature of these extrapolated errors.

Audit Differences

Summary of unadjusted known differences

IAS 19 LIABILITY – SCHEME ASSETS:

We identified the following differences between the value of scheme assets as per the financial statements as estimated by the scheme actuary and the actual outturn as per the audited financial statements of the Pension Fund Accounts.

Scheme Assets understated by £3,123 m

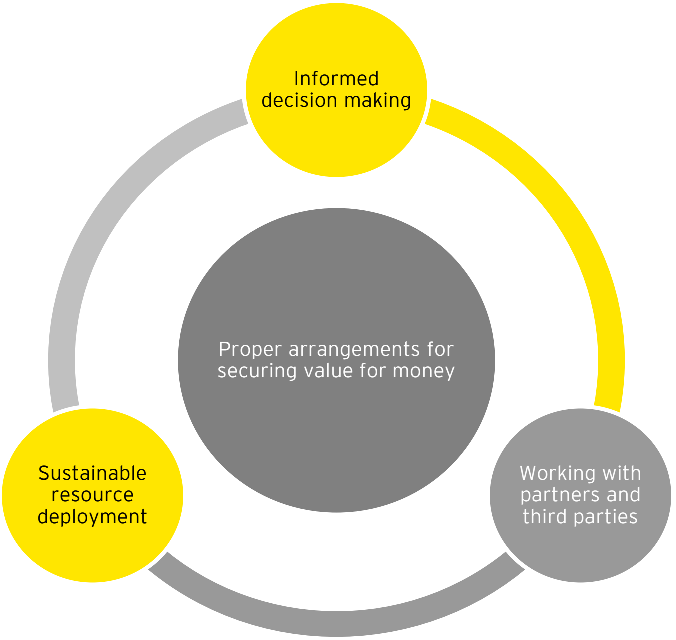
As per the Executive Summary and also the Audit Report at Section 3 we have qualified on these balances and also the associated Comprehensive Income and Expenditure Accounts due to the material nature of these errors in conjunction with the other unadjusted balances noted.

OTHER:

- £695k total of unrecorded liabilities at 31st March 2017 identified in bank statement post year end
- £546k Omission of Housing benefit accrual

05 Value for Money

Value for Money



Background

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

For 2016/17 this is based on the overall evaluation criterion:

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

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

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

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

Overall conclusion

We identified 1 significant risk around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

We therefore plan to report an adverse value for money conclusion about your arrangements to secure economy, efficiency and effectiveness in your use of resources. We have included our draft VFM adverse value for money conclusion at section 3 within this report.

In addition to our in-year responsibilities in respect of the value for money conclusion we also need to consider any prior year recommendations made under the s.24 recommendations and progress made against these. In 2015/16 we made a number recommendations under Section.24 and in line with our statutory powers we reported these to the Secretary of State. We detail our consideration of the Section.24 recommendations in the tables below.

Value for Money Risks

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

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

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

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

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Delivering Financial Resilience	Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties	We found that the action to achieve sustainable financial savings during 2016/17 did not achieve the required savings. The 2016/17 outturn was an overspend of circa £7.5 m and required the use of reserves to balance the budget. The Council are also predicting the use of reserves in 2017/18. We found that the financial and performance information used by the Council is not always reliable and accurate and therefore did not help informed decision making We also found that financial reporting was not reliable throughout 2016/17

Other matters to bring to your attention

We noted the following issues as part of our audit

What are our findings?

1. **Control Observations:**

In addition we found that some of the basic financial controls were not working as expected, for example, the regular completion of reconciliations is not timely, the year-end bank reconciliations did not balance and there were no controls over the production or posting of journals during financial year 2016/17. This increases the risk of fraud and errors remaining undetected. (Sustainable Resource Deployment).

2. **Children's Services:**

In August 2016, Ofsted issued an inspection report of services for children in need of help and protection; children looked after and care leavers and a review of the effectiveness of the local safeguarding children board. It concluded that Children's services in Reading are inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The Inspection found that children are left too long in situations of unknown and acute risk. The Council accepted the findings of the Inspection and put in place procedures to improve performance. Ofsted have monitored progress since the issue of its initial a report and in its last update letter, issued in June 2017 concluded that the Council is not making the expected progress in improving services for its children and young people. (Informed Decision Making, Sustainable Resource Deployment and Working with Partners & Third Parties).

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 2016/17 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 2016/17 and published with the financial statements was consistent with the audited financial statements except for a number of disclosures in respect of reconciling the budgeted information to the Expenditure & Funding Analysis. This has now been corrected in the final version of the financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report. We noted he action plan in place to address some of the governance issues identified and have seen evidence of this being discussed throughout the duration of the audit at the Audit and Governance Committee.

Whole of Government Accounts

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

We have discussed the Whole of Government Accounts return with the relevant government department and they have confirmed that due to the delays in certifying the accounts and issuing the opinion that we are not required to complete a full review.

Other reporting issues

Other powers and duties

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

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues in 2016/17 but have noted the recommendations we made in 2015/16 and the progress made against these. We have detailed our consideration of these within Section 5 within this report – Value for Money.

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;

We note our consideration of the items above within this report.

We have nothing to report in respect of these items noted below.

- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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. 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 identified during the course of the audit:

Please find more detail on these and other deficiencies identified on the following slides.

Significant Deficiencies identified:

- System Reconciliations (High)
- Journal & authorisation controls (High)

Other Deficiencies identified:

- Receivables
- Untimely raising of invoices (Mod)
- Sundry debt managed outside of the finance department (Mod)
- Lack of controls over raising of credit notes (Mod)

- **Payables:**
- No formal accreditation process (Mod)

- **I&E:**
- Internal re-charging (Mod)
- Accruals (Mod)

- **HRA:**
- Business Plan (Mod)

- **Committees & Lack of regular KPI monitoring:**
- KPI's (High)

- **Earmarked Reserves:**
- Lack of Formal Approval (Mod)

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2016/17 audit. At the completion of the audit we will issue a formal management letter containing all of the identified points.

	High	Moderate	Low	Total
New points raised in 2016/17	3	8	0	11
Total open points as at 31st March 2017	**3**	**8**	**0**	**11**

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 following slides are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Assessment of Control Environment – Reconciliations

Area: Across numerous areas

Rating: High

Observation

- Regular reconciliations between core financial systems was not carried out on a timely basis during 2016/17 financial year.
- Year End cash reconciliation for 31st March 2017 was finally completed and provided to EY during March 2018.

Impact

- Increased risk of fraud and errors remaining undetected
- Increased risk of inaccuracy of the council's financial statements / financial records. This has been evident throughout the audit. I.e. Debtors balances on the OHMS rents system did not match those recorded on the General Ledger - the system that feeds the Statement of Accounts.

Management comment

Management comment

Assessment of Control Environment – Journals

Area: Across numerous areas

Rating: High

Observation

- No authorisation controls around posting of journals
- Supporting documentation not required when posting journals onto the system

Impact

- Increased risk of fraud.
- Increased risk of errors. Throughout the audit we evidenced staff posting journals the wrong way round and/ or incorrect double entries into accounts. 2,522 journals lines contain the word 'correction' within the journal description.
- Council unable to provide supporting rationale to audit for numerous journal postings.
- Lack of control over the General Ledger since any member of staff with access to the ledger can post a journal / set up new ledger codes. During the audit we found many instances of journal postings that could not be traced back to the originator. We identified 13,596 unused ledger codes in 16/17.
- Inefficiencies – staff individually posting journals of very low value

Management comment

Management comment

Assessment of Control Environment - Receivables

Area	Receivables	Rating	Moderate

Observation	➢ Sales invoices are not being raised in a timely manner ➢ Through our disposals testing we identified that the council had not raised invoices to the buyer of a fleet of 11 trucks. As a result of our prompt, an invoice was raised (April 2018) and cash was receipted in August 2018 for £33,000 + VAT
Impact	➢ Increased risk of sales invoice never being raised ➢ Increased risk of non payment due to time lag ➢ Increased risk of fraud ➢ Inaccurate picture of debtors position at any point in time
Management comment	

Observation	➢ Sundry debt is being managed outside of the finance department
Impact	➢ Leads to lack of ownership/review with no clear process for debt recovery increasing the risk of non payment ➢ Increased risk of errors. We came across an error where cash had been incorrectly matched against HB debtors instead of sundry.
Management comment	

Assessment of Control Environment – Receivables & Payables

Area	Receivables	Rating	Moderate
Observation	➢ No controls over raising credit notes. We did not identify any fraudulent usage during the audit but did identify evidence of a large number of credit notes being used for incorrect purposes.		
Impact	➢ Increased risk of fraud through mis-use.		
Management comment			

Area	Payables	Rating	Moderate
Observation	➢ There is no formal accreditation process for the majority of suppliers - no management of supplier database.		
Impact	➢ Increased risk of fraudulent payments being made ➢ Increased risk of duplicate payments being made ➢ Supplier chosen may not be in the best interest of the council		
Management comment			

Assessment of Control Environment – Internal re-charging

Area	Income and Expenditure	Rating	Moderate

Observation

- Many instances identified where the council are charging income and expenditure based on an historic cost and the figure being rolled forward for many years without further consideration whether it is still appropriate. Particularly an observation for internal fee recharging.

For example, we identified instances of capitalisation of internal fees for property service staff at 10% of the project predicted or actual cost. The council were unable to provide rationale behind this percentage other than this figure has always been used.

Impact

- Inaccurate records of actual income and expenditure incurred by the council potentially impacting management budgets / decisions.
- Inappropriate capitalisation

Management comment

Management comment

Assessment of Control Environment – Accruals

Area	Income, Expenditure, receivables and payables	Rating	Moderate

Observation

- Many instances of over and under accruing when sufficient data is available to provide a more accurate measurement

For example, a community service accrual has been raised for £250k for a number of years despite actual expenditure increasing year on year. Prior year accrual was understated by £410k.

Impact

- Income and expenditure being recorded in the incorrect financial year
- Over or understatement of creditors
- Incorrect reflection of financial position impacting management budgets /decisions

Management comment

Management comment

Assessment of Control Environment

Area	Housing Revenue Account Business Plan	Rating	Moderate
Observation	As part of the audit we reviewed the HRA Business Plan. From the evidence presented to us it was clear that this was not a fully developed business plan which had been fully approved by the Council.		
Impact	If the council are to fully realise their strategic objectives then it is vital that business plans are fully developed and have the buy in from all relevant stakeholders.		
Management comment			

Area	Key Performance Indicator's (KPI's)	Rating	High
Observation	As part of our wider VFM considerations it quickly became apparent that there was a lack of KPI's which were being regular monitored at a senior committee level.		
Impact	A lack of KPIs leads to a lack of accountability and an inability to monitor performance against key strategic objectives.		
Management comment			

Assessment of Control Environment

Area	Earmarked Reserves	Rating	Moderate

Observation

- We noted as part of our work on earmarked Reserves that there was no formal authorisation process for movements on earmarked Reserves. We would recommend that these are formally approved and discussed at the appropriate committee as part of the ongoing consideration of the Reserve position at the Council.

Impact

- As part of formal governance arrangements this is considered to be good practice and good governance.

Management comment

Assessment of Control Environment

Reliance on internal audit

During the 2016/17 financial year we met with Internal Audit on a number of occasions to discuss the scope of their work, their findings and also gauge an understanding of ongoing control issues.

We have reviewed internal audit reports issued to management to date since 1st April 2016; this is to ensure that any financial statement risks are identified are considered in determining the extent of our audit procedures.

The work carried out by internal audit has supported our audit procedures, but we have not placed reliance on their work.

We have also obtained responses from the Head of Internal audit (March 2017 and updated May 2018) in relation to our standard audit fraud inquiries and have asked to be kept updated throughout the audit.

Status of previous year's recommendations

Items below have been extracted from the 15/16 Audit Results Report & do not re-iterate the control deficiencies highlighted in the S.24 report previously mentioned in this report.

Description	Update
Supplier Management	
Privileged Account Management	
User Administration	
Change Management	
Leaver Management	
Applications and infrastructure security settings	

Challenges going forward have been highlighted in the previous slides.

08 Data Analytics

Use of Data Analytics in the Audit

Data analytics

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 2016/17, 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.

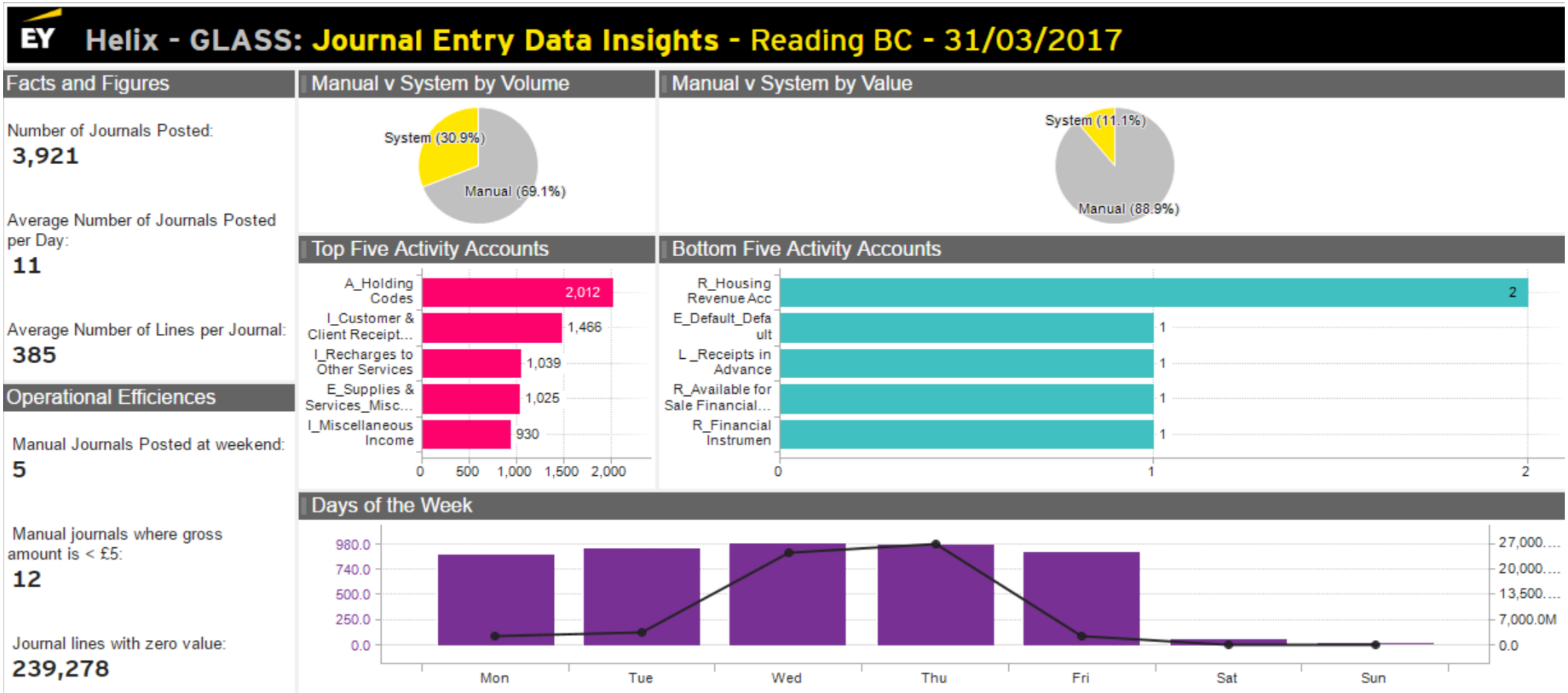
<u>Journal Entry Analysis</u>
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers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

<u>Payroll Analysis</u>
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 2016/17. 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. We have also shared this information with management during the course of the audit to provide additional insight and value from our audit procedures.



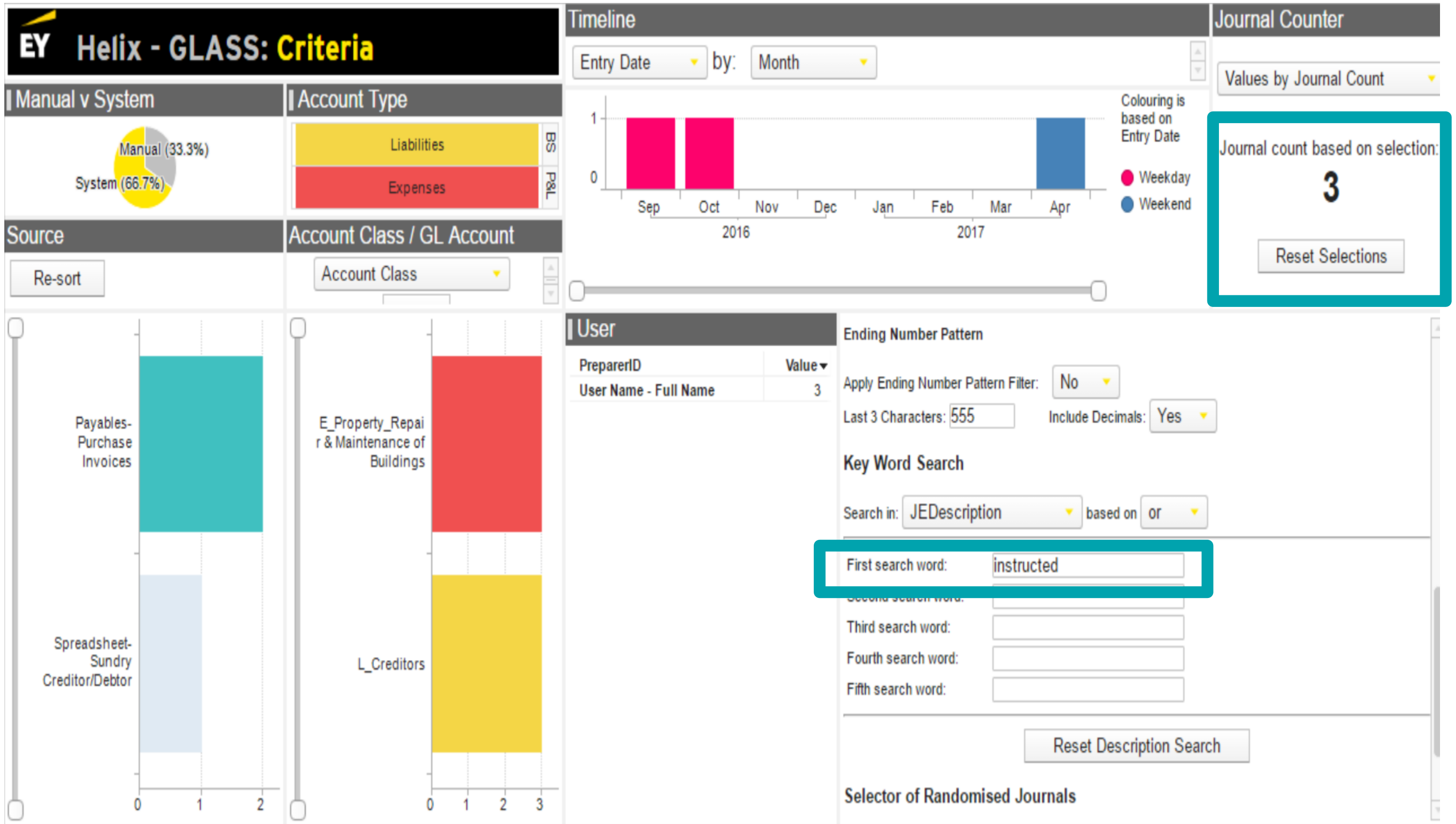
Journal Entry Testing

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.



What did we do?

For example, we identified all journals with the word ‘instructed’ contained within the journal description.

From this we were able to review all journals and identify any that may highlight a risk of management override.

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

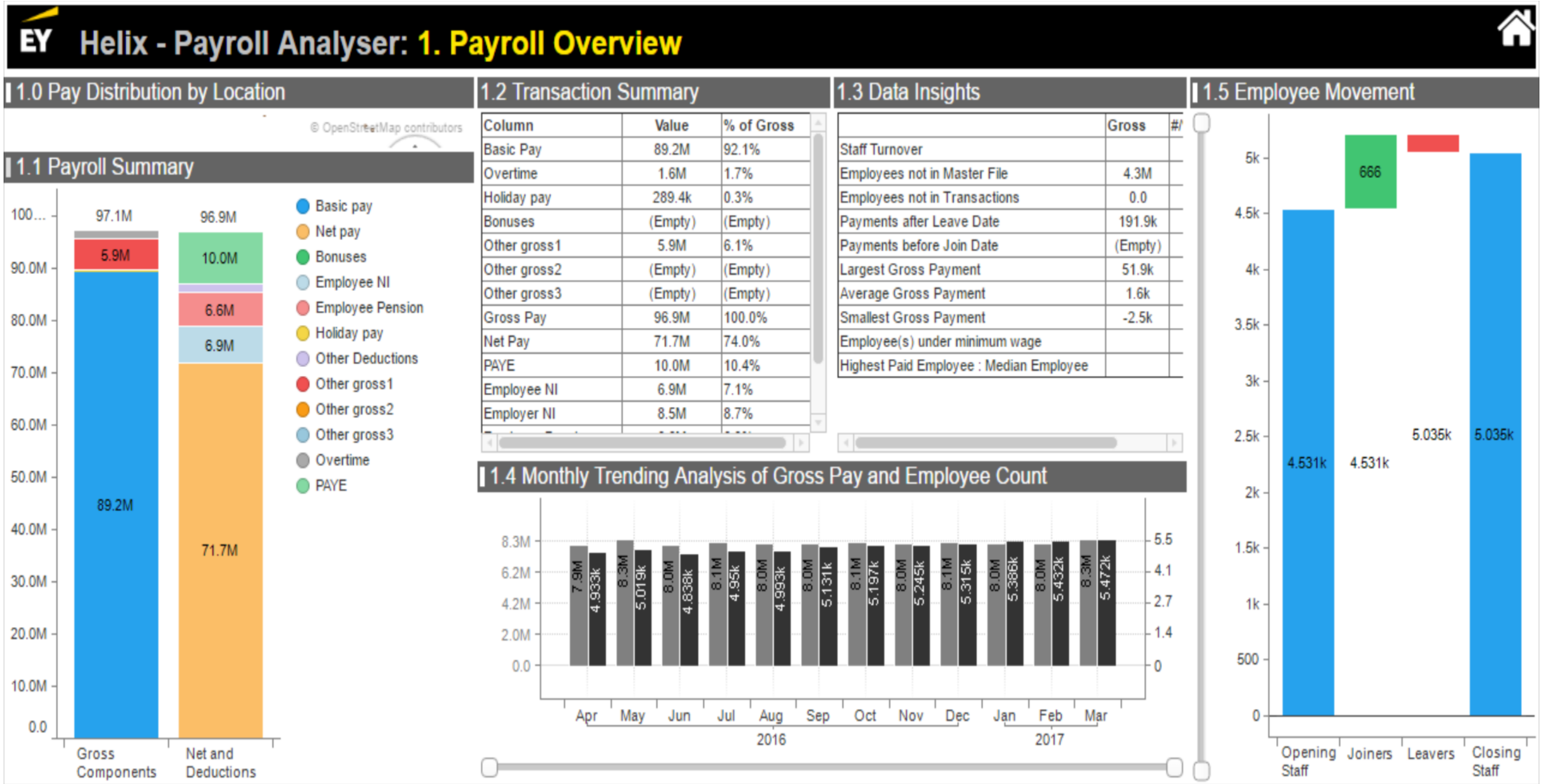
What are our conclusions?

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

Data Analytics

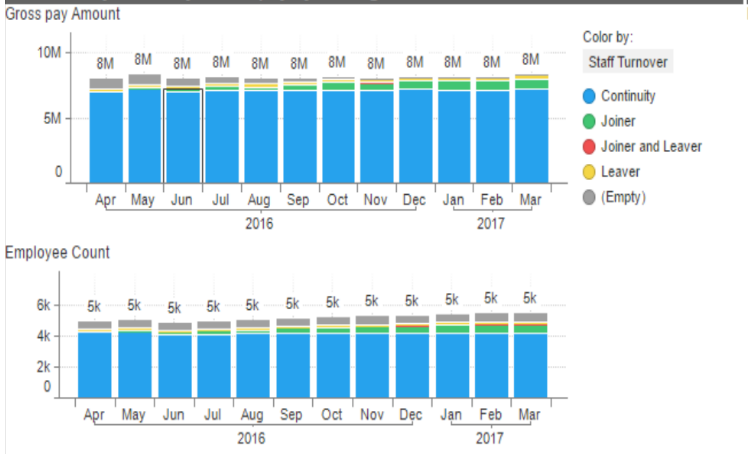
Payroll Analyser Insights

The graphic outlined below summarises the payroll data for 2016/17. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample.



Payroll Testing

4.0 Monthly Summary: Gross pay by Posting Date



4.1 Monthly Summary: Gross pay

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

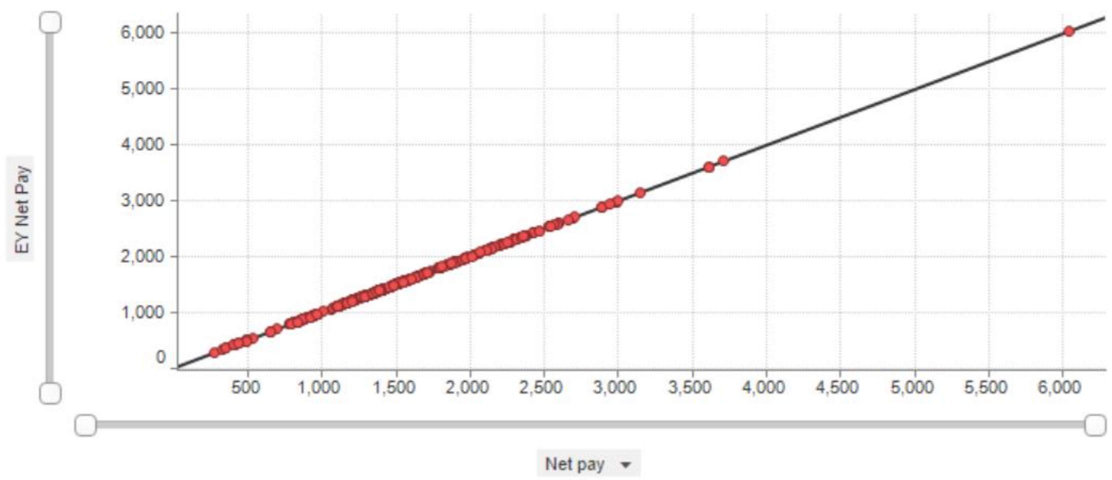
Year	Month	Total Gross pay	Avg Per Transaction	% of Gross Pay	Nil Payments / Total	Monthly % Change
2016	Apr	7,939,493.33	1,609.47	100.00%	416/4933	
	May	8,267,248.72	1,647.19	100.00%	355/5019	4.1
	Jun	7,955,011.05	1,644.28	100.00%	338/4838	-3.7
	Jul	8,121,582.64	1,640.72	100.00%	313/4950	2.0
	Aug	8,027,261.22	1,607.70	100.00%	509/4993	-1.1
	Sep	7,997,528.93	1,558.67	100.00%	757/5131	-0.3
	Oct	8,103,119.30	1,559.19	100.00%	725/5197	1.3
	Nov	8,014,422.72	1,528.01	100.00%	783/5245	-1.0
	Dec	8,079,285.42	1,520.09	100.00%	825/5315	0.8
2017	Jan	8,030,294.96	1,490.96	100.00%	929/5386	-0.6
	Feb	8,024,619.49	1,477.29	100.00%	968/5432	-0.0
	Mar	8,306,289.13	1,517.96	100.00%	1031/5472	3.5
Grand total		96,866,156.91	1,564.60	100.00%	7949/61911	0.0

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.

11.0 EY Net Pay vs. Net pay

EY Net pay is calculated from: Gross pay - PAYE - Employee NI - Other Deductions - Employee Pension. Points on the chart are labelled as Employee Name - Employee Number Transaction ID. Any points that deviate from the line should be investigated.



What did we do?

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

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

What are our conclusions?

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

09 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 19th January 2017.

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 and 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 and Governance Committee.

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on the Investment Property Acquisition process. 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 01st April 2016 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 31st March 2017 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are detailed above.

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

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

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 2017.

We confirm that we have undertaken non-audit work outside the PSAA Code requirements. Details of the non-audit work can be found in the table below.

We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
	£	£	£	£
Total Audit Fee – Code work	**TBC*** **	**£108,938**	**£108,938**	**£186,144***
Housing Benefits Subsidy	£18,623 **	£12,458	£12,458	£34,591
Non-audit work – Housing Capital Receipts certification	£6,000	£6,000	N/A	£6,000
Non-audit work – Teacher's Pensions certification	£10,000	£10,000	N/A	£10,000
Non-audit work – Investment Property Acquisition Review (EY Valuations)	£20,000	£20,000	N/A	N/A
Total non-audit services	**£36,000**	**£36,000**	N/A	£16,000

*: The final fee for 2015/16 includes £77,206 of additional fee in respect of delays in certifying the 2015/16 audit

**: The final fee for the Housing Benefits 2016/17 subsidy certification includes an additional fee of £6,165 in respect of additional work required to review errors beyond what was included in the base fee

***: There will be a significant additional fee in relation to the significant audit overruns identified on the 2016/17 audit. These fees are likely to be significant in relation to the scale fee given the significant overruns experienced on the audit. We will confirm our final fees following the completion of our audit work and report this within the Annual Audit Letter. Any additional fee will need to be approved by the PSAA Ltd in line with the relevant protocols

All fees noted above are exclusive of VAT

10 Appendices

Appendix A

Required communications with the Audit 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 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 2017 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 2017 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	This report presented to the Audit & Governance Committee on 23 July 2019

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	The council are still providing services to the community 12 months on from 31st March 2017 and therefore the presentation and going concern assumption in the 16/17 financial statements is accurate.
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	See section 4 within this report.
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	This report presented to the Audit & Governance Committee on 23 July 2019
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.	This report presented to the Audit & Governance Committee on 23 July 2019

Appendix A

		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	This report presented to the Audit & Governance Committee on 23 July 2019
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 presented to the January 2017 Audit & Governance Committee; and this report presented to the Audit & Governance Committee on 23 July 2019

Appendix A

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.	This report presented to the Audit & Governance Committee on 23 July 2019
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	This report presented to the Audit & Governance Committee on 23 July 2019
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit. We have highlighted these in further detail within this report	This report presented to the Audit & Governance Committee on 23 July 2019

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group Audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report presented to the January 2017 Audit & Governance Committee; and this report presented to the Audit & Governance Committee on 23 July 2019
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	This report presented to the Audit & Governance Committee on 23 July 2019
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	This report presented to the Audit & Governance Committee on 23 July 2019
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	This report presented to the Audit & Governance Committee on 23 July 2019
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 presented to the January 2017 Audit & Governance Committee; and this report presented to the Audit & Governance Committee on 23 July 2019
Certification work	▸ Summary of certification work	Certification Report presented to the April 2018 Audit & Governance Committee

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 financial statements	Accounts to be formally approved and signed	Management & EY on receipt
Management representation letter	Receipt of signed management representation letter	Management and Audit & Governance Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report including full minute reviews up to date of sign off	Management & EY on receipt

Management representation letter

Reading Borough Council 2016-17

Management Rep Letter

To be prepared on the entity's letterhead]
[Date]

Ernst & Young
Apex Plaza
Forbury Rd
Reading RG1 1YE

Dear Maria,

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 31st March 2017. 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 31st March 2017 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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.

We acknowledge and accept the qualifications that you have highlighted in the following significant accounts and disclosures:

Short-term Debtors;
Short-term Creditors;
Income and Expenditure;
IAS 19 Scheme Assets

We also acknowledge the mis-statements which you have identified during your audit which has resulted in the qualifications on these areas. We comment further on the unadjusted audit differences schedule later in this letter but for the sake of clarity any reference to unadjusted audit differences 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:

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 2016/17. We acknowledge, as members of management of the Group and Council, that due to the issues identified during the audit that we have significantly missed the deadline for the certification of the 2016/17 accounts.

Management representation letter

Reading Borough Council 2016-17

Management Rep Letter

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. With the exception of the items referenced above which are subject to qualification we have approved the consolidated and council financial statements and notes.

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. We recognise that the Council's system of internal controls has been deficient in a number of key areas; the Council have addressed this through a combination of implementing new systems and procedures as well as training. Whilst these will take some time to embed and will reap further benefit in subsequent years, we believe they are 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 2016/17 for the Group and for the Council that are free from material misstatement, whether due to fraud or error.

5. The unadjusted audit differences (£546k in relation to a Housing Benefit accrual and £695k in relation to other accruals) detailed in the accompanying schedule and accumulated by you during the current audit are, we believe; immaterial, both individually and in the aggregate to the financial statements. Our basis for determining this is that in relation to the Housing Benefit accrual it is the Council's practice to account for 52 weeks of Housing Benefit payments in a year and not adjust for payments made in April that refer to the previous year. Making the proposed adjustment would not be consistent with previous years and result in 53 weeks payments within the year rather than 52.

6. In respect of the other accumulated accruals (£695k relating to eleven payments made in April 2017) the Council has decided not to adjust for these payments as none of them are material in the context of the particular budgets to which they pertain, with two thirds of the items being small capital programme payments.

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

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address 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 no knowledge of any identified or suspected non-compliance with laws or regulations. We are aware that a number of frauds have been identified during the 2016/17 financial year but confirm that we are not aware of any such instances that may have materially affected the Group or Council financial statements during 2016/17 (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

Management representation letter

Management Rep Letter

B. Non-compliance with law and regulations, including fraud (cont'd)

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the 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 and 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.

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 are reflected in the consolidated and council financial statements with the exception of those accounts which have resulted in qualification and have been previously referenced within this letter.

3. We have made available to you all minutes of the meetings of the Council, and all relevant committees including Audit & Governance, Cabinet & Council held through the period to the most recent meeting on the following date: 15th July 2019.

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. We acknowledge that a number of material mis-statements have been required to adjust for some of the original assumptions applied and this has also resulted in a number of prior period adjustments which are detailed further below.

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. We acknowledge that where we have been able to fully evidence support for debtor balances that this has resulted in a qualification on this significant account as previously detailed within this letter.

Management representation letter

Management Rep Letter

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.

E. Subsequent Events
1. Other than the disclosures described in Note 20 to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. 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.

G. Expenditure & Funding Analysis
1. We have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.

2. We confirm that the financial statements reflect the operating segments reported internally to the Council.

H. Other information
1. We acknowledge our responsibility for the preparation of the other information, the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

Management representation letter

Management Rep Letter

I. Comparative information – comparative financial statements
In connection with your audit of the comparative consolidated and council financial statements for the year ended 31st March 2017, we represent, to the best of our knowledge and belief, the following:

Prior Period Adjustments:

1) Collection Fund:
As part of the preparation of the 2016/17 accounts, the Council identified that the establishment of the business rates appeals provision in 2013/14 had been understated by £9.6 m. £2.4 m of this was corrected in 2014/15 leaving an uncorrected understated balance of £7.2 m, the Council's share of which was £3.528 m (i.e. 49%).

Consequently, the balance on the Collection Fund Adjustment Account at 31 March 2015 was understated by £3.528 m, matched by an overstatement of debtors by £0.160 m, and an understatement of creditors by £3.368 m.

2) Infrastructure Assets:
As part of the preparation of the 2016/17 accounts, it was identified that Infrastructure Assets had historically been depreciated on a reducing balance basis, instead of the Council's stated accounting policy to depreciate such assets on a straight line basis. As a result, depreciation was understated by £6.485 m to 31 March 2015 and £6.819 m to 31 March 2016.

3) Council Dwellings Valuations:
The carrying value of council dwellings valuations has been restated because:
depreciation had been understated where revaluations had reversed impairments from previous years; and
the basis for estimating the split of valuations between land and buildings for the purpose of estimating depreciation was restated to reflect actual land values for the HRA dwelling stock.

Whilst the overall valuation was unchanged for each financial year, the carrying value of the dwellings increased by £70.828 m to £399.359 m and £52.342 m to £452.706 m at 31 March 2016.

This adjustment also impacted on the Housing Revenue Account, reducing its balance by £0.147 m to £21.956 m at 31 March 2016, with a consequent increase in the Capital Adjustment Account balance of £48.261 m and an increase in the Revaluation Reserve balance of £4.318 m as at 31 March 2016.

Management representation letter

Management Rep Letter

4) North Whitley Housing (HRA) PFI Scheme:
A review of the financial model for the North Whitley PFI Scheme identified an error in the calculation of the overall liability of the scheme. The revised calculations are as follows:

- a reduction in the liability by £4.860 m from £26.237 m to £21.377 m at 1 April 2015. This is matched by an increase in the balance on the Capital Adjustment Account of £4.860 m;

- an increase in the charges to the HRA for the service charge and interest elements of the unitary payment of £0.689 m. This is matched by a reduction of £0.689 m in the principal repayment.

In addition, the projections of the future liabilities under the contract were overstated because inflation had been overstated and the projections did not take account of reductions in the housing stock from when the contract was let.

On recalculation, the combined effect of both these factors, and the reduction in the lease liability element of the contract, results in an overall reduction in projected liabilities of £13.759 m as at 31 March 2016, reducing the liability from £146.045 m to £132.286 m.

5) Other Land and Buildings' Valuations:
The value of all other land and buildings assets, previously valued in excess of £0.1 m, were revalued and the 2015/16 balance sheet restated, because:

- whilst the Council had revalued one-fifth of the property portfolio each year, no review had been undertaken to ensure that the varying values of the remaining four-fifths of the portfolio did not differ materially from the current value. A market report from a specialist valuation firm indicated that property market movements had moved materially for the entire asset portfolio. As a result, the Council engaged an external valuer to revalue all assets, at both 1 April 2015 and 31 March 2016, valued in excess of £0.1 m; and
- in previous years, the Council's accounting policy had been to impair capital expenditure where the expenditure was less than 10% of the asset value. This policy understated the carrying value of assets and thus depreciation charges and any revaluation gains.

The impact of these revaluations is to:
- increase the value of Property, Plant and Equipment at 31st March 2015 by £16.827 m and by £20.475 m at 31st March 2016;
- increase the balance on Unusable Reserves at 31st March 2015 by £18.774 m and by £18.883 m at 31st March 2016; and
- increase the net charge in the Comprehensive Income and Expenditure Statement in 2015/16 to Service for Depreciation and Impairment by £26.678 m

Management representation letter

Management Rep Letter

6) Assets Held for Sale:
As part of the preparation of the 2016/17 accounts, the Council identified that a number of assets held for sale were incorrectly classified as there was no active plans to dispose of them. As a result, the assets have been reclassified as Surplus Assets, which reduced the balance of Assets Held for Sale by £0.291 m and increased Surplus Assets by £0.291 m at 31st March 2015.

A further asset was reclassified at 31st March 2016, reducing the balance of Assets Held for Sale by £3.291 m and increasing the Surplus Assets balance by £3.291 m.

7) Investment Properties:
As part of the closure of the 2016/17 accounts, a review was conducted of the properties classified as Investment Properties. The Council considered whether the reason to hold each property was solely to earn rentals or for capital appreciation.

It was concluded that a number of buildings should be reclassified as operational Land and Buildings as there were other reasons to hold the property. As a result, £19.023 m of Investment Property assets have been reclassified to Other Land and Buildings as at 31 March 2016 (31 March 2015: £18.498 m).

8) Liabilities Reclassification:
A review of liabilities identified that the following items had been mis-classified in the 2015/16 accounts and have been reclassified as follows:
£3.300 m was reclassified from Creditors to Short Term Provisions at 31st March 2015, with £11.638 m similarly reclassified as at 31st March 2016 (excluding the adjustment above for the Collection Fund); and
£1.020 m was reclassified from Short Term Lease Liabilities to Long Term Lease Liabilities at 31st March 2016

The comparative amounts have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's consolidated and council financial statements.

There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's consolidated and council financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the consolidated and council financial statements for the year ended 31st March 2017 are solely the result of reclassifications for comparative purposes.

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

Management representation letter

Management Rep Letter

L. Use of the Work of a Specialist – Property, Plant & Equipment; & Pensions

1, We agree with the findings of the specialists that we engaged to evaluate the valuation assertion for Property, Plant and Equipment and Pensions 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.

M. Estimates – Property, Plant & Equipment, Pensions & Provisions

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.

2. We confirm that the significant assumptions used in making the accounting estimate for property, plant and equipment, pensions and provisions appropriately reflect our intent and ability to carry out providing services on behalf of the entity.

3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting 2016/17.

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.

5. We confirm that we have made available to you all information in respect of the Equal Pay Provision.

N. Retirement benefits

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.

O. Conclusion

We confirm that, with the exception of the items referred to within this letter, there are no other events or representations that we need to bring to your attention in respect of the 2016/17 audit.

Yours faithfully,

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Jackie Yates – Executive Director of Resources

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Councillor David Stevens - Chairman of the Audit & Governance Committee

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