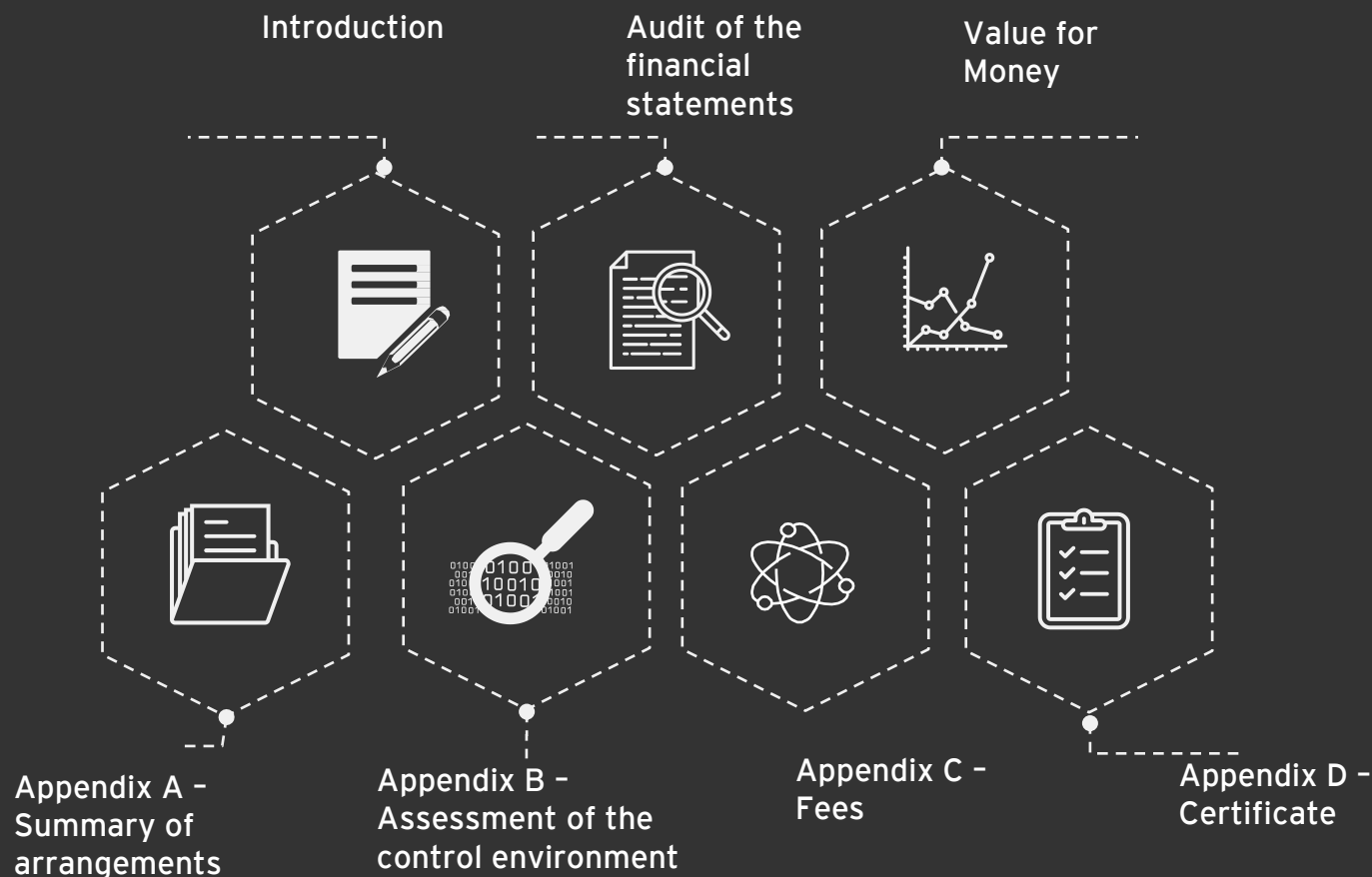


**Reading Borough  
Council  
Auditor's Annual  
Report**

Year ended 31 March 2021

April 2024

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



# Introduction

## **Purpose**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues and recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 13 January 2023. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



## Introduction (continued)

### 2020/21 Conclusions

<b>Financial statements</b>	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. We issued our auditor's report on 08 April 2024.
<b>Going concern</b>	We have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
<b>Consistency of the other information published with the financial statement</b>	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
<b>Value for money (VFM)</b>	We had matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in the Value for Money section of this report with further detail in Appendix A - Summary of arrangements.
<b>Consistency of the annual governance statement</b>	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
<b>Public interest report and other auditor powers</b>	We had no reason to use our auditor powers.
<b>Whole of government accounts</b>	Due to the delays with the certification of the 2020/21 audit We have not performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is due to the fact that the NAO confirmed that the submission process for 2020/21 had been closed to further submissions.
<b>Certificate</b>	We issued our certificate on 19 April 2024.



# Audit of the financial statements

## Key findings

The Narrative Statement and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 08 April 2024, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 27 September 2023 Audit & Governance Committee meeting and provided updates at the January 2024 Audit & Governance Committee. In addition, we shared a final version of the Audit Results Report with the Chair of the Audit & Governance Committee and met with the Committee Chair and the Chief Accountant on 26 March 2024 to discuss the Audit Results Report and also to address any questions. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported fourteen internal control recommendations and areas for improvement in the control environment in the Audit Results Report. Further details of these recommendations and findings can be found at Appendix B 'Assessment of the control environment'.

## Significant risk

## Conclusion

**Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure**

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.

We did not identify any issues with management's accounting policies or practices in relation to financing expenditure from capital sources.

We focused our testing on property, plant and equipment, investment property and REFCUS capital additions. Based on the testing we performed, we identified one error in the recording of professional fees amounting to £493k. Management have adjusted this in the latest accounts. An extrapolated difference (projected misstatement for the rest of the population) of £394k was also identified by the audit team, which was included as part of our reported uncorrected differences.

No other adjustments were noted in capital additions where expenditure had been inappropriately capitalised. We did not identify any inappropriate transfers between the Housing Revenue Account and the General Fund.

## Misstatements due to fraud or error

On every audit engagement, we expect at least one of the identified significant risks to have an element of management override. Where this element has been identified, we must be specific about the risk (management bias, management optimism, etc.) and ensure we design our procedures to address this risk.

Our work did not identify any material weaknesses in the design and/or operation of controls or evidence of material misstatements, whether due to fraud or error, related to the inappropriate capitalisation of revenue expenditure. Our work did not identify any instances of inappropriate judgements being applied.

Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. We completed a review of the appropriateness of journal entries recorded in the general ledger and we did not identify any instances of the inappropriate posting of journals. In addition, we also assessed estimates for evidence of management bias and we noted no such evidence. Lastly we considered significant unusual transactions and we did not identify any such transactions.



# Audit of the financial statements

## Key findings

### Significant risk

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

### Conclusion

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

We engaged our internal valuation specialist (EY Real Estate Team) to review 7 properties (6 other land and building and 1 investment property), which were specifically selected as representative of the subcategories of other land and buildings and investment property. We engaged our specialist to review the reasonableness of the assumptions used by the Council's external valuer (Sanderson Weatherall) and the resulting valuation of each property. The review performed by EY Real Estate (EYRE) identified an unsupportable valuation for one of the Council's properties (Oracle). Management have provided an updated valuation for the Oracle property which reflects the agreed adjustments. There were no other exceptions raised in the work undertaken by EYRE.

We also performed a review of the reasonableness of the assumptions and the valuation of the remaining 9 samples of other land and building. Management noted the following adjustments (above our reporting threshold) in the accounts as a result of queries raised by the audit team and their subsequent review.

- Adjustment to reduce the reported revalued amount of the Oracle by £3.68 million. The adjustment reduced the PPE (other land and buildings) balance and increased environment and neighbourhood services by a corresponding amount as a result of the impairment of the property.
- Adjustment to increase the valuation of hostel properties by £0.66 million. The adjustment increased the PPE (other land and building) balances by £0.66 million and decreased environment and neighbourhood services by a corresponding amount.

We did not identify any adjustments other than the items referred to above.

Our assessment of the valuation of other land and building included assessment of the assets not revalued during the financial year. We performed substantive analytical procedures to assess the valuations of the properties that were not revalued during the year. We had no matters that we bring to the attention of the Committee.

We also performed a review of the six remaining investment properties not covered by EYRE. We did not note any exceptions from the procedures performed.



# Audit of the financial statements

## Key findings

### Inherent risk

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

### Conclusion

We assessed the work of the pension actuary (Barnett Waddingham) including the assumptions they used. We relied on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, in turn reviewed by the EY actuarial team. We did not find any issues in this area. We also assessed the impact of the 2022 Triennial review on the 2020/21 financial statements, with the support of the EY actuarial team, and did not find any issues. The accounting entries and disclosures within the Authority's financial statements had been carried out correctly based on the information the Authority received from the actuary.

We liaised with the auditors (Deloitte) of Royal County of Berkshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Authority. The response to our request was provided on 20 February 2024. Issues identified by Deloitte in relation to their audit of the Royal County of Berkshire Pension Fund that members should be aware of were;

- Based on the evidence obtained from a walk-through of the key controls identified over maintaining member records, updating member records for employer monthly/annual data returns and changes identified by members, it was noted that there was no record of any formal checks performed over the data extracted from the administrative systems by a senior team member. As a result, Deloitte did not consider the controls to be designed and implemented satisfactorily and recommendations were made to management in respect of those controls. We considered the impact on the Council's accounts and we have concluded that this has no material impact.
- No adjustments had been made in the figures in the IAS19 report to reflect the outcome of the Goodwin legal ruling. We involved our EY pensions specialists to assess the impact of this, and estimated the potential impact to be an understatement of pensions liability of £1.968 million. We reported this as an uncorrected audit difference. No audit differences were identified in relation to the McCloud legal ruling.
- For Reading Borough Council, Deloitte reconciled the total number of active, deferred, pensioner and dependents members submitted to the actuary to the IAS19 Report produced by the Actuary. A difference of 63 was noted in relation to active members, 374 in relation to deferred members (including "undecided" and "frozen" members), and 195 in relation to pensioner and dependant members. We engaged our EY pensions specialist to perform roll-forward procedures on the pension scheme liability and conclude on the potential for a material misstatement in the pension liabilities. The outcome of this work indicated that there is no material impact on the valuation of the pension net liability of Reading Borough Council due to this issue.
- In order to gain assurance over the completeness and accuracy of information in the IAS 19 template, Deloitte compared the total contributions in the template of £138.2 million to the total contributions receivable per the Fund's accounting records of £136.6 million. A difference of £1.6 million was therefore noted between accounting records and actuarial total reported contributions receivable for the Fund as a whole. The difference is a result of incomplete cash flow information being provided to the actuary. This has resulted in an understatement of the liability amounting £0.349 million for Reading Borough Council.
- It was identified that there was a significant risk over the valuation of the longevity swap. Deloitte tested the design and implementation of controls over the valuation of this investment at the Fund level. Deloitte also performed an assessment of the external expert who provides the Pension Fund with the valuation of the swap. During the audit, the private equity funds of the Pension Fund were adjusted by £48.121 million in the financial statements. This adjustment was already reflected in the draft financial statements for Reading Borough Council for 2020/21.

The judgemental differences identified in the second and fourth bullet points above were not amended by the Authority



# Audit of the financial statements

## Key findings

### Inherent risk

### Conclusion

#### Going concern disclosures (Compliance with ISA 570)

We:

- Challenged and tested management's identification of events or conditions impacting going concern (i.e. the impact of Covid-19 on fees and charges), particularly areas where there was the risk of management bias
- Carried out a greater amount of work to challenge management's assessment of going concern, which included auditing cashflow forecasts. We requested that management extend their cashflow for a period of at least 12 months from the date of the audit report. Management extended the cashflow forward to 31 May 2025
- Applied necessary consideration regarding the appropriateness of financial statement disclosures around going concern. This disclosure was subsequently revised and updated to disclose all of the relevant facts and assumptions supporting management's assumption as at the conclusion of the audit in April 2024.
- Carried out our work in the context of, and with due consideration of, the Practice Note 10 definition of public sector Going Concern.

#### Group accounts: differences in accounting policies of the components

We:

- Identified material subsidiary balances and transactions consolidated in the Group accounts and assessed whether the accounting treatment of those amounts complied with the Group accounting policies and also the CIPFA Code;
- Where exceptions were identified, we requested management's assessment and reviewed it for reasonableness;
- Instructed the relevant component auditors to report to us under the group accounting policies;
- Checked additional disclosure requirements in the Group accounts of the Council.

Our work on Group accounts and accounting did not identify any material matters in respect of the Group scoping and accounting.



# Audit of the financial statements

## Key findings

### Inherent risk

### Conclusion

**Potential error in the accounting treatment of cash reconciling items in the main bank account reconciliation**

We:

- Obtained management's revised bank reconciliations for the main bank account.
- Performed a review of the bank reconciliation of the main accounts focusing on the bank reconciling item and testing at lower thresholds.
- Assessed the accounting treatment of the reconciling items and trace the journal entries made to identify any inappropriate treatment.

Our work on the bank reconciliations identified the following adjustments which were agreed by and made by management:

- Adjustment to write off unsupported cash reconciling items amounting to £0.892 million. This was agreed to the final version of the 2020/21 accounts.
- Adjustment to correct the stale cheque maintained in the cash reconciling items amounting to £0.611 million. This was reflected as an uncorrected adjustment.

**New central Government grants and other Covid -19 funding streams**

We

- considered the Council's judgement on material grants received in relation to whether it was acting as an agent, intermediary or principal, where the Council had determined that it is acting on its own behalf.
- Selected a sample of Covid-19 grants received in year and, for each item in our sample we reviewed the Council's accounting treatment as agent or principal.

We noted no material issues from the accounting treatment in respect of new central government grants and other Covid-19 funding streams.

We identified two risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Our VFM commentary highlights relevant issues for the Council and the wider public.

We have matters to report by exception in the audit report.

## Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the January 2023 Audit & Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Director of Finance, the Chief Accountant and the Head of Internal Audit and evaluation of associated documentation through our regular engagement with Council management and the finance team.

## Reporting

We identified two significant risks related to the internal control environment and also the inconsistency in respect of the OFSTED inspection of Children's services as part of our risk assessment procedures. We set out our planned response in our Audit Plan. We reported this matter by exception in the audit report on the financial statements and provided further details in the Audit Results Report. We include within the VFM commentary below the associated recommendations we have agreed with the Council.

Our commentary for 2020/21 is set out over the following pages. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2020/21. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<b>Financial sustainability:</b> How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
<b>Governance:</b> How the Council ensures that it makes informed decisions and properly manages its risks	Significant risks identified	Significant weaknesses identified
<b>Improving economy, efficiency and effectiveness:</b> How the Council uses information about its costs and performance to improve the way it manages and delivers its services	Significant risks identified	Significant weaknesses identified



## Value for Money (continued)

### Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

#### No Significant Weakness Identified

##### Financial Performance:

Net revenue expenditure for 2020/21 on portfolio budgets was £150.090 million, representing a £12.762 million underspend. This was largely due to in-year financial pressures being relieved by additional grant funding from Central Government. The Covid-19 pandemic resulted in revenue and cost pressures of £16.448m. These pressures were in turn offset by additional Covid-19 funding of £20.416m and also net savings of £8.479m. Overall we deem this to be a well managed, well documented and appropriate performance achievement for the period.

##### Financial Position:

Total Usable Reserves (i.e. General Fund Balances and Earmarked Reserves) increased by £53.371 million due to the surplus on the Provision of Services and other in-year transfers for example: £42m transferred to the Revenue Grants Unapplied Reserve and £19m transferred to the Capital Financing Smoothing Reserve. The balance of the Council's General Fund remained at £7.5m. The balance of £7.5m in General Fund balances is within the Council limit for General Fund balances. Earmarked Reserves increased to £99.1m. The Council also held £59.8m in Cash and Cash Equivalents.

##### Budgets and Medium-Term Financial Strategy (MTFS):

The budget for 2020/21 was approved in February 2020 by the Council. The Council was able to produce a balanced budget for the financial year in-line with statutory duties, however the MTFS published in February 2024 identified a cumulative budget gap to 2026/27 with the budgets for 2025/26 and 2026/27 not balanced with a budget gap of £6.026 m currently forecast for 2025/26, reducing to a gap of £3.691 m for 2026/27. At the time the MTFS was produced pay and price inflation were significant budgetary pressures and that has extended through into the 2023/24 financial year. Uncertainty over the future levels of funding from Government, the continued application of the DSG statutory override, adult social care reform, pressure on the provision of children's services and homelessness are all recognised as risks to the Council's financial position over the medium term. The Council has been clear on these risks, which are common with financial pressures at similar local authorities, and associated measures to seek to mitigate them have been well documented in both its internal financial reporting and external communications with relevant stakeholders.

**Conclusion: Based on the work performed, the Council had proper arrangements in place in 2020/21 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.**



## Value for Money (continued)

### **Governance: How the Council ensures that it makes informed decisions and properly manages its risks**

The Council's established budget setting and monitoring processes have continued throughout 2020/21, with appropriate oversight from the Council's relevant Committees and decision making bodies. There are well established governance arrangements, policies and procedures in place to ensure compliance with legislative and regulatory requirements and routine monitoring of adherence to those standards. The Council has implemented systems to ensure conflicts of interest are identified, recorded and acted upon accordingly, excluding anyone from decision-making where a conflict arises, and making public declaration of interests through its Register of Interests.

The Council continues to maintain adequate arrangements to monitor and gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud and corruption. The Council's risk management framework guides the development of risk and opportunity management at a strategic and operational level and to ensure that risks are appropriately managed and controlled. This aids the achievement of the Council's strategic priorities, supports its decision-making processes, and protects its reputation and other assets and is compliant with statutory and regulatory obligations. Risks are identified as a routine process of all services and these are regularly reviewed and updated. Where recommendations have been raised, there is an established process of monitoring progress to ensure these recommendations are implemented and embedded. Where actions and recommendations go overdue, management are required to report the rationale to the Committee.

The risk management framework is supported and informed by the work of the Council's Internal Audit function. Having completed their work in accordance with the 2020/21 Internal Audit Plan, 45% of reports issued received either a Limited or No assurance rating. This resulted in a Head of Internal Audit Opinion for 2020/21 with a Limited Assurance opinion. This is evidence of weakness in arrangements.

#### **Governance: Significant Weakness Identified:**

In February 2017, we issued Section 24 Schedule 7(2) Statutory Recommendations covering a number of areas including control account and bank reconciliations. In recent years, control account processes, including bank reconciliations, continued to not operate effectively. The Annual Head of Internal Audit Opinions also continued to highlight concerns over the control environment resulting in a number of limited assurance opinions. In addition, our audit in recent years has also identified a number of control recommendations.

In forming our assessment we have read and considered:

- internal audit reports for the period;
- the Limited Assurance Head of Internal Audit Opinion for the period 2020/21; and
- minutes from the Council.

Delays in the completion of bank and control account reconciliations increases the risk of fraud and errors remaining undetected.

This issue is evidence of a significant weakness in arrangements in Governance, specifically, how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

**Conclusion: Based on the work performed, the Council did not have proper arrangements in place in 2020/21 to enable it to make informed decisions and properly manage its risks.**

**Recommendation:** We recommend that the Council completes the Finance Improvement Programme to ensure financial process and procedures are robust.



## Value for Money (continued)

### **Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services**

The Council has policies and procedures in place to ensure that staff operate in accordance with relevant legislative and regulatory requirements. Each of the Council's areas of key service provision are supported by a separate overview and scrutiny committee. Each of these Committees is responsible for ensuring compliance with legislative and regulatory requirements. The Council has an established process of quarterly reporting of financial performance to the Policy Committee.

These Committees have continued to operate effectively throughout the 2020/21 period, and clearly outline performance against planned targets and outcomes. These meetings and the decisions made are published on the Council's website. Depending on the performance area, the (full) Council meeting has oversight of actions being identified and taken to address areas where performance is below plan. Where available, services utilise performance information and standards to compare and assess performance with other councils or with nationally recognised performance frameworks (e.g. Department of Work and Pensions and national planning indicators). The Council's services continue to be subject to review and assessment by external bodies such as the Care Quality Commission and OFSTED.

#### **Improving Economy, Efficiency and Effectiveness: Children's Services - Evaluation of the Services provided to assess performance and identify areas for improvement**

In August 2016, OFSTED issued an inspection report of services for children in need of help and protection; children looked after; and care leavers and a review of the effectiveness of the local safeguarding children board. It concluded that Children's services in Reading were inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The Inspection found that children are left too long in situations of unknown and acute risk. The Council accepted the findings of the Inspection and put in place procedures to improve performance. OFSTED have continued to regularly assess the performance of the Council in this area and in previous years we reviewed all inspection reports. These continued to show that progress in this area was inconsistent. The Government Minister wrote to the Council on 8 February 2021 noting improvements and the removal of the statutory direction but confirmed that Ofsted would continue with a programme of support and supervision. We consider, however, that despite the improvements made and the lifting of the intervention, that for the year 2020/21 there was still a significant weakness in arrangements given the continued focus of Ofsted in respect of supervision and support.

In forming our assessment, we have read and considered:

- OFSTED inspection reports for the period under audit and subsequent periods;
- correspondence between OFSTED and the Council; and
- relevant reports and minutes from Council meetings.

Weaknesses in children's services have led to an inadequate level of service provision by the Council and increased scrutiny from the regulator.

This issue is evidence of a significant weakness in arrangements in respect of improving economy, efficiency and effectiveness, specifically how the body evaluates the services it provides to assess performance and identify areas for improvement.

**Conclusion: Based on the work performed, the Council did not have proper arrangements in place in 2020/21 to enable it to use information about its costs and performance to improve the way it manages and delivers services.**

**Recommendation:** We recommend the Council implements the actions required by OFSTED and critically assesses ongoing performance in this key area of service provision.

# Appendices

## Appendix A – Summary of arrangements

### Financial Sustainability

#### Reporting Sub-Criteria

#### Findings

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them.

The budget for 2020/21 was approved by the Council in February 2020 and the council tax requirement (which is the net budget met by council tax) for 2020/21 was set at £150.090m. The net budget was financed from a combination of: Retained Business Rates (£34.3m); Council Tax (£96m); New Homes Bonus (£4m); Section 31 Grants (£4m) and a one-off Collection Fund surplus (£10.5m). The original General Fund budget for 2020/21 was set at £150.090m. This included growth in service budgets of £12.8m; savings measures of £11.6m and a contingency provision of £3.5m to mitigate risks relating to delivery of planned savings and the newly created children's company.

The Council's arrangements for 2020/21 were in the context of changes to the Local Government financial framework as part of the coronavirus pandemic response.

During 2020/21 there were a number of changes to the original approved budget and financial strategy, reflecting Cabinet decisions and the application of several emergency funding streams made available by the Government and NHS England in response to the coronavirus pandemic. By June 2021 the Council had distributed more than £43m of grants to thousands of businesses; awarded more than £59m of business rates relief; and awarded £0.9m of hardship funding to Council Tax Support claimants. Like other similar local government bodies, the Council saw an immediate and sharp reduction in key income streams such as car parking and also increased applications for both business rates and council tax relief. These effects continued throughout 2020/21, with gross revenue pressures as a result of Covid-19 totalling £16.448m. Funding received from Central Government included £13.269m of Central Government general support grant, £5.842m in compensation for lost income from sales, fees & charges, and £1.305m furlough grant, leaving £3.968m of unallocated Covid-19 grant funding to be rolled forward as an earmarked reserve into 2021/22 for use in subsequent years.

How the body plans to bridge its funding gaps and identifies achievable savings

Full Council as well as the Policy Committee maintain and provide oversight over the financial performance of the Council. This is done through the annual budget as well as Medium Term Financial Strategy (MTFS) being approved by the Full Council. These documents identify areas of financial pressures with the aim of producing and delivering a balanced budget each year. This is then monitored through monthly Business Management and Monitoring Reports to the Policy Committee where any in-year variations are approved.

The budget setting process identifies funding gaps and the action required to address these gaps. These are detailed in the MTFS under the 'Risks' section which form the basis of the Council's risks and mitigations. Monthly reporting on business management and monitoring to the Policy Committee also enables the Council to identify gaps in funding and monitor progress on meeting savings targets.

## Appendix A – Summary of arrangements

### Financial Sustainability

#### Reporting Sub-Criteria

#### Findings

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council has a vision and a long-term strategic plan which articulates how it will deliver its statutory responsibilities by bringing together the Council's policy, business and financial planning and risk management. During 2020-21 the Council was operating under the Corporate Plan 2020-2024. The Corporate Plan details how the Council will deliver its corporate objectives over the next 3 years. The Council aligns the annual operating plan including the financial plans for enabling sustainable delivery of services. This forms the basis of monthly reporting to the Policy Committee.

As well as holding a contingency budget, general balances are also held to ensure that a major incident or emergency can be managed without impacting on other services. In reaching the decision on the level of balances that are appropriate to be held for 2020/21 and future years, the Council have considered the strategic, operational and financial risks facing the authority including the ability to deliver planned savings, as well as external risks such as the impact of flooding. During 2020/21 the Council also actively had to manage forward reserves to reflect the longer-term impact of Covid-19 on its residents. £3.968m of Covid-19 funding which was underspent in 2020/21 was subsequently carried forward in a Covid Reserve.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

Throughout the financial planning i.e. annual budget and MTFs processes, consideration of other plans such as capital and treasury management also take place. The Capital and Treasury Management Strategies also form part of the annual budget setting process with the two Strategies being taken to the Policy Committee for approval at the same time as the revenue budget.

The Capital and Treasury Management Strategies give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

All of the Council's financial strategies and planning interlink and are presented in a way that informs clear and effective decision making.

The Council reports to each Policy Committee meeting on key performance areas which show the extent to which the changes we expect to see as a result of the Council's actions are being achieved, and in turn measures and targets show progress towards the performance indicators. The Council's financial plans include reporting on these wider areas as part of its mechanisms for monitoring the achievement of targets for each of the key performance areas. Where the Council identifies a risk to target achievement, it incorporates the resulting identified mitigating actions into the budget, which enables it to identify the necessary financial resources required to implement the actions.

## Appendix A - Summary of arrangements

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### Financial Sustainability

#### Reporting Sub-Criteria

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

#### Findings

The Council has an effective corporate risk management framework in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. This includes both financial and non-financial risks. The risk register is reviewed throughout the year by the Policy Committee, Corporate Management Team and the Audit & Governance Committee.

It is the responsibility of Chief Officers to control income and expenditure on their budgets and to monitor performance taking account of financial information provided by the Director of Finance.

The largest risk affecting the Council throughout the year was the ongoing Covid-19 pandemic. The Council's response, such as presented to the Policy Committee meetings throughout the period, shows the decisive steps that were taken by the Council.

The pandemic required local authorities to make rapid adjustments to meet new demands and to step up work in critical frontline services. These new and increased demands resulted in significant additional expenditure. At the same time, council income streams were severely damaged by lockdowns and other restrictions. During 2020/21, additional funding was provided from central Government to help councils with the financial impact of COVID-19, however this has not matched projected additional costs and loss of income for the year. Given the legal duty councils must balance their budgets each year and act to avoid the possibility that expenditure might exceed available income in any year Officers addressed the potential overspend arising from COVID-19. A revised budget addressing the potential overspend taking into account expected additional funding received from government was agreed by Council. The revised budget ensured a balanced position for 2020/21 could be achieved and that budgets to meet the additional costs of COVID-19 were agreed to enable effective budget management. This evidences the Council's approach to unplanned changes in demand.

Any changes to demands are managed through regular budget monitoring and also utilizing underspends in other areas. The Council also hold a healthy balance of investments although this is held with a long-term view, these are available where needed.

## Appendix A – Summary of arrangements (continued)

### Governance

#### Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council's budget is refreshed annually to match its strategic aims and align to strategic priorities and risks. The Quarterly Performance Monitoring Report and the Implementation of Audit Recommendations Tracker Report outlines the actions being undertaken by the Council to provide assurance that risks are being mitigated to an acceptable level. The Quarterly Performance Report is supported by a risk register. The risks assessed are wider than just financial, due to the nature of the Council's activities. The Council assesses impact of risks on a matrix of likelihood of occurrence and potential impact upon the Council, with a combined score produced to assess the importance of the risk. The Council has a Risk Strategy which contains the risk appetite statement that defines acceptable levels of risk for its activities. Management is responsible for ensuring that there is a sound system of internal control, which includes arrangements for managing risk. The three key elements of the Council's control environment comprise: internal control, governance and risk management arrangements. The Council has an internal audit service to help gain assurance over the effective operation of internal controls. It also has a Counter Fraud Team as part of its Counter Fraud Strategy and Plan to prevent and detect fraud. Quarterly reports are received from the internal auditors highlighting their work carried out including a breakdown of fraud investigations with any significant issues included in summary format. Cases of alleged or proven incidents of fraud are investigated or tracked by internal audit and reported to the Audit & Governance Committee. The Director of Finance is responsible for the adequate provision of Internal audit and counter fraud with oversight from the Audit & Governance Committee. Council management is responsible for responding to the internal audit and counter fraud findings appropriately and in a timely manner with appropriate challenge from the Audit & Governance Committee. An audit recommendations tracker is presented at each Audit & Governance Committee meeting and officers are often challenged at Committee on progress against audit findings and recommendations.

The Annual Head of Internal Audit Opinion for 2020/21 was a Limited Assurance Opinion meaning that only limited assurance can be taken that arrangements to secure governance, risk management and internal control within those areas audited in 2020/21, are suitable designed and applied effectively. The internal audit report for 2020/21 noted that 45% of reviews undertaken received limited or no assurance. In addition, our audit in recent years has also identified a number of control recommendations. Delays in the completion of bank and control account reconciliations increases the risk of fraud and errors remaining undetected.

This issue is evidence of a significant weakness in arrangements in Governance, specifically, how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

The Counter Fraud Strategy and related policies (including the Bribery Act Policy) are regularly reviewed and have been approved by the Audit & Governance Committee. The Council fully participate in the National Fraud Initiative with results notified to the Audit & Governance Committee through the Chief Internal Auditors Annual Report and Opinion. In 2020/21 the Counter Fraud team identified approximately £1.28m in cash and notional savings. Financial regulations and procedures have been developed and are kept under review to ensure they provide an effective control framework. Compliance is monitored through appropriate review by service managers and finance staff together with independent review by internal audit.

## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

#### Findings

How the body approaches and carries out its annual budget setting process

The Council develops its financial plan and budget using dual processes:

**Top down:** The Council approves or adopts the policy framework which sets out the Council's service delivery plans, including the Corporate Plan and in addition approves or adopts the annual budget. The Policy Committee is responsible for making sure that there is effective financial planning within the Council. This includes preparing proposals for the budget, which should take account of the views of the public and local stakeholders.

**Bottom up:** where the Council develops a granular level of activity, income, expenditure, workforce, capacity and efficiency planning. The Council then triangulates these plans with operational, performance and workforce leads.

We obtained the Budget for the current year 20/21 and we noted that the Budget was considered by the Policy Committee, before submission to Full Council. We also noted through the review of the Budget Process that the Policy Committee considered strategic issues relating to the Budget including comments on individual portfolios. The Budget was firstly recommended for approval by the Policy Committee before the Budget for 20/21 was recommended for approval by Full Council as per the above processes and arrangements contained in the Council's Constitution.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

Within the Constitution of the Council there are processes and procedures in place to ensure the Council has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed.

#### **Budget Monitoring and Control:**

The Director of Finance is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Director of Finance must monitor expenditure against budget allocations and report to the Policy Committee on the overall position on a regular basis. It is the responsibility of Chief Officers to control income and expenditure on their budgets and to monitor performance taking account of financial information provided by the Director of Finance. They should report to the relevant Executive Member on variations and take any action necessary to avoid exceeding their budgets and alert the Director of Finance to any problems. Any new proposal containing significant financial implications must take note of the Director of Finance's advice as well as that of the relevant Chief Officer and Executive Member.

The Director of Finance oversees the adoption and operation of the Council's overall performance management. The monthly monitoring report to the Policy Committee includes a budget vs actual position and other non-financial and performance reporting with areas identified that need corrective action based on any deviation from budget incurred during the year. In response, the report also highlights corrective actions and savings put in place to address the deviations. This is evident through actions taken to meet changing economic conditions through the pandemic.

## Appendix A – Summary of arrangements (continued)

### Governance

#### Findings

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed (cont'd)

#### **Financial Reporting:**

Due to historic issues and delays with the external audit of the Council the Council has been unable to meet the statutory timetable for either the production of draft financial statements or audited financial statements. The audit of the 2020/21 financial statements was completed in April 2024 and an unqualified opinion issued on the financial statements. The Council also missed the statutory publication dates for subsequent years i.e. 2021/22 and 2022/23. The draft accounts have now been published for both years.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Reading Borough Council operates a committee system form of governance. The effective operation of key committees, supported with regular, clear and relevant information, is the Council's key tool for ensuring that it makes properly informed decisions. The committee system form of governance appoints Committees and Sub-Committees with delegated powers and membership in proportion to the representation of the individual political groups on the Council. Political leadership of the Council is in accordance with the Local Government Act 1972.

Published Committee papers and minutes evidence the challenge made by Councillors and the transparency in decision making. Executive decisions are made by the Executive Body being the Leader and Policy Committee, within the overall policy and budgetary framework approved by Full Council. Any decisions the Executive wishes to take outside of the framework must be referred to Full Council to decide.

#### **Full Council:**

The Full Council is responsible for specified major decisions, such as setting the budget, and debates topical issues. It also receives reports from the Executive, and members are able to question the Executive on their areas of business. At the annual meeting of the Council a Leader is appointed. The Leader is in turn then appointed to and also designated Chair of the Policy Committee.

#### **Policy Committee:**

The Policy Committee has full oversight of the strategic direction of the Council as well as also being responsible for key policy initiatives and importantly the budget. A key function of the Policy Committee is that it critically assesses service performance and improvement across all Council services. In addition, the Policy Committee also plays a crucial role in the governance and oversight of the Council's subsidiaries including as being on behalf of the Council the sole owner and member for Brighter Futures for Children Ltd and also as shareholder for Homes for Reading and Reading Transport Limited.

## Appendix A - Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

#### Findings

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee (cont'd)

#### **Audit & Governance Committee:**

The Audit & Governance Committee meets four times per year, is comprised of appropriately skilled and experienced members, has clear terms of reference which emphasises the Committee's role in providing effective challenge and has an annual work plan to help ensure that it focuses on the relevant aspects of governance, internal control and financial reporting. Our attendance at the Audit & Governance Committee meetings indicates that reports brought to the attention of the Audit & Governance Committee are appropriately challenged and scrutinised.

#### **Monitoring Officer:**

The Council also has a Monitoring Officer in place. The function and role of the Monitoring Officer includes ensuring lawful and fair decision making. The Monitoring Officer is an active participant at relevant committees including the Audit & Governance Committee.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

We have identified there are various policies in place regarding the integrity, ethical values and behaviour of key executives. A code of corporate governance is in place to ensure that the intended outcomes for stakeholders are defined and achieved.

To ensure effective leadership throughout the Council, members and officers work together to deliver agreed plans with defined functions and roles. These roles and responsibilities are set out in the Constitution and in particular look at how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Many of these processes are required by statute and regulations by Governmental and other bodies (e.g. CIPFA) while the Council has determined others locally.

The Council has adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers. These include codes of conduct for both officers and members and cover conflicts of interest and gifts and hospitality and appropriate policies for partnership working. The Code of conduct is communicated and monitored regularly. The handbook includes policies regarding ethics and behavioural standards for employees and it is well communicated to the stakeholders of the business and is available on the Council's intranet. All staff, Councillors and co-opted members are provided with a copy of the relevant policy when joining and are required to read and sign up to the code of conduct/employee handbook.

The Council has policies and procedures in place to ensure that staff operate in accordance with relevant legislative and regulatory requirements. These policies and procedures are reviewed and revised regularly - this is overseen by the County Council.

The Council has specific policies for staff and non-executive directors in respect of gifts and hospitality and conflicts of interest. Annually, all Senior Staff and Councillors are required to make declarations. These declarations are recorded in a register maintained by the Finance Team and published on the Council's website.

## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness

#### Reporting Sub-Criteria

#### Findings

How financial and performance information has been used to assess performance to identify areas for improvement

The Council receives reports on performance in its key areas against key performance indicators set out in the Outcomes Framework that is agreed annually. The monthly business management and monitoring reports clearly outline performance against planned targets and outcomes. Depending on the performance area, a Council committee will have oversight of the actions being identified and taken to address areas where performance is below plan.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council has an array of ways of measuring its own performance across all aspects of its operations. It brings these together in the form of monthly reporting to the Policy Committee against its medium-term financial strategy, key performance indicators and annual budget. Where performance is below plan these reports highlight the action being taken to seek the required improvement. The Council undertook a Corporate Peer Challenge in 2022 to receive feedback from the Local Government Association to improve its services. This shows that the Council has voluntarily sought external feedback to help drive its performance.

How financial and performance information has been used to assess performance to identify areas for improvement

The Council receives reports on performance in its key areas against key performance indicators set out in the Outcomes Framework that is agreed annually. The monthly business management and monitoring reports clearly outline performance against planned targets and outcomes. Depending on the performance area, a Council committee will have oversight of the actions being identified and taken to address areas where performance is below plan.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council has an array of ways of measuring its own performance across all aspects of its operations. It brings these together in the form of monthly reporting to the Policy Committee against its medium-term financial strategy, key performance indicators and annual budget. Where performance is below plan these reports highlight the action being taken to seek the required improvement. The Council used a Corporate Peer Challenge in 2022 to receive feedback from the Local Government Association to improve its services. This shows that the Council has voluntarily sought external feedback to help drive its performance.

The Council publishes an annual Narrative Statement and Annual Governance Statement (AGS) as part of the year-end closedown process outlining its performance for the financial year that also considers non-financial aspects. The AGS also highlights significant governance issues and looks back at progress against issues raised in the prior year and also importantly governance issues to be addressed in the next financial year.

Some key performance areas such as schools or social care are also reviewed by external agencies such as OFSTED or the Care Quality Commission (CQC) and provide detailed reporting on the performance of the Council's arrangements and performance in relevant areas.

## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness

#### Reporting Sub-Criteria

#### Findings

How the body evaluates the services it provides to assess performance and identify areas for improvement (cont'd)

In August 2016, OFSTED issued an inspection report of services for children in need of help and protection; children looked after and care leavers and a review of the effectiveness of the local safeguarding children board. It concluded that Children's services in Reading were inadequate and found serious, persistent, and systemic failures in the services provided to children who need help and protection. The inspection found that children are left too long in situations of unknown and acute risk. Subsequently, there have been several monitoring visits which identified that, whilst some progress had been made, there was still inconsistency in progress through the period up to 31 March 2021.

We have reviewed the OFSTED reports on Reading Borough Council and its subsidiary Brighter Futures for Children in October 2019 which concluded that services required improvement to be good and in the case of Brighter Futures for Children the report dated March 2020 which also concluded that services required improvement to be good. We have also looked at reports subsequent to the 2020/21 year which acknowledge that for Reading BC children's services there have been improvements whilst for Brighter futures for Children services were judged good or outstanding in reports for years beyond 2020/21. We also note that the intervention placed on Children's services by the Secretary of State following the 2016 report were lifted during 2020/21 in acknowledgements of improvements made. Due to Covid-19 formal inspections were ceased in 2020/21.

The Government Minister wrote to the Council on 8 February 2021 noting improvements and the removal of the statutory direction but confirmed that Ofsted would continue with a programme of support and supervision. We consider, however, that despite the improvements made and the lifting of the intervention, that for the year 2020/21 there was still a significant weakness in arrangements given the continued focus of Ofsted in respect of supervision and support. The Council actively manage their response to Ofsted through a Children's programme board which meets monthly and is overseen by the new children's subsidiary. This has helped monitor and progress key recommendations. We would envisage that this significant weakness will not be in place in future years given the improvements noted.

This is evidence of weakness in the Council's arrangements for the safe provision of children's services in the period and specifically in respect of the evaluation of the services provided to assess performance and identify areas for improvement.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Corporate Plan sets out how the Council aims to work in partnership to achieve its agreed objectives. It is the responsibility of the Policy Committee for approving the Council's participation in all significant partnerships/joint working arrangements with other local, public, private and voluntary organisations.

The Council had in place a number of collaborative working arrangements. These arrangements are generally focused on key aspects of strategic direction such as: Housing, Growth, Environmental and Health.

## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness

#### Reporting Sub-Criteria

#### Findings

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve (cont'd)

The Council has pooled budget arrangements with NHS bodies and during 2020/21 had formal joint working agreements with the other 5 Berkshire Councils and also the local Clinical Commissioning Groups. These partnerships involve joint use of the assets and resources of each organisation rather than the establishment of a separate entity.

#### National Health Service Section 75 Pooled Budgets

During 2020/21 the Council had two pooled budgets with the Berkshire Clinical Commissioning Groups. The pooled budgets operate to provide better outcomes for patients within Berkshire and ensure that the resources in place are best utilised for maximum impact.

Other key partnerships include the Reading-Hampshire Property Partnership (RHPP). This is a joint venture between the Council and Hampshire County Council and provides services to support work on property, notable the Primary School Expansion Programme.

#### Berkshire Local Enterprise Partnership (LEP):

The Council is also a member of the Berkshire Local Enterprise Partnership (LEP).

The LEP is a joint committee of the six councils of Berkshire together with key strategic partners. It has been set up to facilitate and enable joint working on economic development, strategic planning and growth. It does this by overseeing the delivery of projects that the councils of Berkshire are seeking to deliver collaboratively in the fields of economic development and strategic planning. The LEP also has an important role in representing Berkshire on matters of regional interest.

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Council follows the process within the Constitution of the Council in Part 8, Section 3 which sets out the procurement and contracts procedures. This includes the procedures and statutory requirements in terms of the procurement of services. The way goods and services must be procured is laid down in the Council's Commissioning and Procurement Strategy and also the Contract Procedural Rules. These Procedures identify the approach that must be taken, dependent on the anticipated value of a contract over its whole life and the associated level of risk to the Council.

There is sufficient oversight to ensure that there is compliance over the procurement or commissioning of services, through effective authorisation levels as set out in the Standing Orders from designated budget holders to the oversight committees. As noted above, the Council has a procurement strategy to align the Council's procedures with the relevant legislative and professional standards to ensure that all commissioned and procured services is done in accordance with the relevant legislation and professional standards.

Best value principles underpin the Council's approach to procurement and Directors have a responsibility to ensure, and be able to demonstrate, value for money in all their procurement activities.

# Appendix B - Assessment of Control Environment - 2018/19, 2019/20 and 2020/21



## Financial controls

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

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

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

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

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

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the financial years 2018/19, 2019/20 and 2020/21 audits.

	High	Moderate	Low	Closed	Total
Issues raised in FY 2018/19	1	1	1	0	3
Issues exist in both FY 2018/19 and 2019/20	0	2	0	0	2
Issues raised in FY 2019/20 and 2020/21	3	5	1	0	10

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

The matters reported are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you. We will consider management's responses and report progress against these as part of future reporting to the Audit & Governance Committee.

# Assessment of Control Environment - Reported in 2018/19

Area/  
Findings

**Reconciliations were not performed between subsidiary ledger or other reports to the general ledger**

Rating



Observation

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

- No reconciliation performed between the general ledger account and subsidy claim form to determine the correct amount of housing benefit expenditure.
- No reconciliation to check completeness of data received from housing repairs team via email before uploading to Oracle. Similarly, there is no check to ensure completeness of data transfer from Ohms to Total however this is an automatic process.

The control recommendation is that reconciliation should be carried out in all the accounts of the Council that uses subsidiary ledger and a proper review and approval process should be designed and implemented to capture and difference noted in the reconciliation so it can be duly corrected in a timely manner.

Management  
comment

*2020/21 Response*

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

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



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

Area/  
Findings

**Review and approval process were not designed and implemented effectively**

Rating



Observation

Our walkthrough procedures noted instances in the accounts payable and accounts receivable process that the review and approval process was not implemented effectively. This includes the following:

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

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

Management  
comment

**2020/21 Response**

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

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



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

Area/  
Findings

**Control environment surrounding transactions between the Council and Brighter Futures for Children**

Rating



Observation

During the 2018/19 audit we identified a number of different errors in respect of the transactions between the Council and the new subsidiary 'Brighter Futures for Children' (BFfC). The component auditor also reported findings in respect of their audit of BFfC. We recommend that a thorough review or audit is conducted to ensure that all issues highlighted have been thoroughly completed and fully resolved.

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

Management  
comment

**2019/20 Response**

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

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

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

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

**2020/21 Response**

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



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

Area/  
Findings

**Bank reconciliation was incorrectly performed and was not carried out frequently**

Rating



Observation

From FY 2018/19 and 2019/20, our substantive procedures revealed that the bank reconciliation was not carried out correctly. We obtained our assurance over the existence of bank balance through bank confirmation and the bank statement, however the management cannot provide explanation for some of the reconciling items reported in the bank reconciliation.

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

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

Management  
comment

**2019/20 Response**

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

**2020/21 Response**

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

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



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

Area/  
Findings

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

Rating



Observation

Our substantive testing on the starters and leavers during the 2018/19 revealed various inconsistencies in the records and the supporting documents received for employees starting in the Council and the employees leaving the Council. Some of the inconsistencies noted includes the following:

**2018/19 Findings**

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

**2019/20 Findings**

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

**2020/21 Findings**

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

The control recommendation is that the management should maintain a centralised record keeping and monitoring of the documents processed by HR and the payroll team should make sure that the documents are complete prior to updating the records in the payroll system.

Management  
comment

**2020/21 Response**

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

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



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

Area/  
Findings

**Sundry creditors brought forward balance was still outstanding**

Rating



Observation

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

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

Management  
comment

***2019/20 Response***

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

***2020/21 Response***

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



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

Area/  
Findings

**Recharges between departments were not posted in the correct account**

Rating



Observation

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

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

Management  
comment

**2019/20 Response**

Agreed. This has been a key area which we have discussed with the auditors and have agreed with the findings that although the net position remains the same, it is important that we do not over-report the expenditure and income for these areas.

With this in mind we have changed the "mapping" of these charges and hence they will be netted down in the future. It is also notable that we have found some areas ourselves whereby this treatment is also applicable. We can therefore be confident for 19/20 and subsequent years that this issue has been addressed.

**2020/21 Response**

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



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

Area/ Findings	Rating	Area/ Findings	Rating
<p><b>BFfC - Improper record keeping of employee related documentations</b></p> <p><b>Observation</b></p> <p>During testing on payroll balances of the component auditors, it was noted that certain documentation, including offer letters, P45s and salary increase letters, were not held and there were no records of these being kept for various members of staff.</p> <p>Our control recommendation is that the management should maintain a centralised record keeping and monitoring of the documents processed by HR and the payroll team should make sure that the documents are complete prior to updating the records in the payroll system.</p>	<p>Yellow</p>	<p><b>BFfC - Incorrect accounting treatment of VAT by BFfC</b></p> <p><b>Observation</b></p> <p>As reported by the component auditors, BFfC treats the services provided by Council as subject to VAT and subsequently recovers the VAT on the expenditure. There is a risk that HMRC may consider the services as an exempt supply, which could make BFfC liable to penalties.</p> <p>As a result of the above treatment an error in quarter 2 VAT return of BFfC was noted which resulted to a discrepancy in 2019/20 £0.98m. The</p> <p>We would recommend that the management revisit and review and apply the correct accounting treatment for VAT in BFfC.</p>	<p>Red</p>
<p><b>Management comment</b></p> <p>Agreed. This will be discussed with HR and payroll to ensure the documentation is complete prior to updating payroll records.</p>		<p><b>Management comment</b></p> <p>The VAT processes and controls have remained the same, are up to date and correct. The error described is historic and we are confident of our VAT treatment and the checks that are undertaken to ensure that each element of inter-company activity is treated correctly for VAT purposes.</p>	



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

Area/  
Findings

**Untimely reconciliation of the sundry debtor subsidiary ledger to general ledger**

Rating



Observation

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

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

Management  
comment

**2019/20 Response**

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

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

**2020/21 Response**

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



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

Area/ Findings	<b>Untimely recording of intercompany transactions and completion of intercompany reconciliation with Council and BFfC</b>	Rating	
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Observation	<p>During our 2019/20 audit of short-term debtor and short-term creditor we noted differences in intercompany balance between the Council and BFfC. The management reviewed the difference in the intercompany balance reported in the audited accounts of BFfC and in the accounts of the Council. As a result, the management noted three adjustments that was corrected in the accounts of the Council. These adjustments could have been avoided if the intercompany transactions are recorded timely and proper reconciliation of intercompany reconciliation is conducted.</p> <p>During our 2020/21 audit, management have noted intercompany adjustments between BFfC and the Council. The amounts are insignificant as compared to FY 2019/20 which indicated the solutions were implement by the management to reduce any further errors. See Section 4 of this report for details of the adjustment</p> <p>We recommend that the management should continue performing proper intercompany transactions and balances reconciliation on a timely manner. We would also recommend that management maintain a specific general ledger account for all intercompany transactions between its subsidiaries to easily account for any inconsistencies.</p>
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Management comment	<p><b>2019/20 Response</b> Agreed. This is an area where we continue to improve our processes and recognise that in order to return to a timely basis for publishing the Statement of Accounts each year we need to have easily reconcilable inter-company transactions and a robust consolidation process. We have identified and rectified a number of discrepancies on our own reconciliations between Reading and its subsidiaries, during our quality assurance work.</p> <p>There is always an issue of timing whereby a debt may be settled by one party and not yet recorded in the accounts of the other. Hence, we have a year end agreed position where any discrepancies can be identified, to ensure they are not material in nature or value.</p> <p>It has been the case in previous years, due to perceived expediency, that codes have been used consistently marked as "sundry debtors" to identify the transactions as relating to Inter-company. This is of course counter-productive, so we have been working to ensure that we have all the codes available to mitigate the need to use Reading only codes and to make those inter-company transactions transparent and easy to isolate and reconcile. It is fair to say that this area has been steadily improving and we can be more confident that we have eliminated the appropriate inter-company transactions in our group accounts and both parties understand what the year end position is. The final accounts team has supplemented the work undertaken by the service finance teams on inter-company reconciliations.</p> <p><b>2020/21 Response</b> A line by line reconciliation is undertaken by the Final Accounts Team. We now believe we have a strong control in place to identify and reconcile inter-company transactions in order to produce robust Group Accounts.</p>
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# Assessment of Control Environment - Reported in 2019/20 and 2020/21

Area/ Findings	<b>GROUP - Review of the group consolidation working paper should be performed.</b>	Rating	
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Area/ Findings	<b>BFFC - Untimely recording of intercompany transactions and completion of intercompany reconciliation</b>	Rating	
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Observation	<p>During our review of the group consolidation working in FY 2019/20 and 2020/21, we noted some exceptions in the consolidation workings of the Council and its subsidiaries. These includes some balances which was not pulled out correctly from the audited accounts of the subsidiaries, eliminating entries not correctly presented in the consolidations and notes that were not updated correctly.</p> <p>To remediate the issue, we would recommend that the management perform a thorough review of the group consolidation working paper and the basis of consolidated amounts presented in the notes.</p>
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Observation	<p>The component auditors of BFFC reported that there are number of transactions that should be provided by the Council via the service level agreement have been overlooked, are not being completed efficiently and recorded in the BFFC accounts. These transactions were agreed and adjusted in the BFFC account</p> <p>Similar to the Council, we recommend that the management perform a proper intercompany transactions and balances reconciliation on a timely manner. We would also recommend that management maintain a specific general ledger account for all intercompany transactions between its subsidiaries to easily account for any inconsistencies.</p>
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Management comment	<p>Agreed. We continue to improve this area and are aware that the adjustments needed have fallen in number and we now have a far more robust process which we continue to review and improve.</p>
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Management comment	<p>Agreed. We have appropriate management codes within our finance system to enable us to identify and reconcile inter-company transactions.</p>
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# Assessment of Control Environment - Reported in 2019/20 and 2020/21

Area/  
Findings

**Scanning function in Fusion was incorrectly capturing invoice amounts**

Rating



Observation

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

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

Management  
comment

***2020/21 Response***

Any scanning issues are identified they are corrected.

The Council implemented a new finance system, e5, which will have new invoice scanning functionality (DB Capture) which has been tested successfully. The new system was implemented in December 2023.

## Appendix C - Fees

### Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)".

As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to a number of different areas. These risks (significant and inherent) and the conclusions reached are detailed at the 'Audit of Financial Statements' section of this report. As a result, we will discuss an associated additional fee with the Director of Finance which remains subject to approval by PSAA Ltd.

Description'	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
<b>Total Audit Fee - Code work</b>	£TBC**	£83,882	£373,635*
<b>Non-audit work - Housing Benefits</b>	£92,650	£92,650	£34,591
<b>Non-audit work - Teachers Pensions</b>	11,500	11,500	11,000
<b>Total</b>	Variable	213,088	£419,226

For 2020/21 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Council and additional work to address the increase in Regulatory standards.

\* PSAA approved in April 2024 an additional fee in respect of 2019/20 of £289,753. The scale fee for 2019/20 was £83,882 which brings the total fee for 2019/20 to £373,635.

\*\* Now that the audit has been concluded we will need to calculate the additional fee in respect of 2020/21. This will be reported to the next available Audit & Governance Committee meeting. Any fee will be discussed with both the Director of Finance and PSAA Ltd and PSAA Ltd will determine the final fee.

We confirm we have undertaken non-audit work as detailed in the above table.

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO.



## Appendix D - Certificate

### Certificate

#### **AUDITORS CERTIFICATE WHERE THE OPINION PREVIOUSLY ISSUED IN ADVANCE OF CLOSURE OF THE AUDIT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF READING BOROUGH COUNCIL AND GROUP**

##### **Issue of audit opinion on the financial statements**

In our audit report for the year ended 31 March 2021 issued on 8 April 2024, we reported that, in our opinion, the financial statements:

- gave a true and fair view of the financial position of Reading Borough Council and Group as at 31 March 2021 and of its expenditure and income for the year then ended;
- had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

##### **Delay in certification of completion of the audit**

In our report dated 8 April 2024, we explained that we could not formally conclude the audit and issue an audit certificate until we had issued our Auditor's Annual Report, including our commentary on your value for money arrangements. This report has now been issued.

No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion and no matters have come to our attention that would have resulted in a different opinion on the financial statements or additional exception reporting on significant weaknesses in the Authority's value for money arrangements.

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.

Maria Grindley (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Reading  
19 April 2024

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