



The Royal Borough of Windsor & Maidenhead

Auditor's Annual Report 2020/21

Draft Issued on 8 November 2023 for the meeting on 16 November 2023 to
the Audit & Governance committee

The final report will be issued on signing of our audit opinion

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Key Messages

Note on status of report

The Auditor's Annual Report is required to be issued after issue of our audit opinion. This draft report has been provided to the Audit & Governance Committee to bring to your attention the planned content of the report. When issued, the text in red and square brackets will be updated to confirm the final reported position.

Audit opinion on the financial statements

[We issued a qualified opinion on the Council and group's financial statements on [Date]. The basis of the qualification was a limitation of scope over National Non-Domestic Rates balances (and related figures in the Collection Fund and Collection Fund Adjustment Account), as due to system limitations the Council was unable to provide a breakdown of the NNDR-related debtor and creditor balances as at 31 March 2021.]

[We issued an unqualified opinion on the Pension Fund financial statements on [date].]

As noted on page 11 to 15, a number of material adjustments were required to both the Council and Pension Fund draft financial statements, which have been reflected in the published accounts. We identified a number of significant control findings, which have been reflected in our reporting to the Audit and Governance Committee and which informed our value for money considerations and the significant weaknesses identified.

The Council's arrangements to secure Value for Money

Significant weaknesses in the Council's arrangements

Our 2019/20 Value for Money conclusion was qualified in three respects:

- weaknesses in arrangements for planning finances;
- weaknesses in arrangements for reliable and timely financial reporting and maintaining a sound system of internal control; and
- weaknesses in governance arrangements.

We identified a risk of significant weakness in each of these areas for 2020/21, as detailed on pages 17 to 23. Based on the work undertaken, we have reported to the Council that there remain significant weaknesses in arrangements in respect of:

- arrangements for reliable and timely financial reporting and maintaining a sound system of internal control; and
- governance arrangements in particular in respect of informed decision making and risk management.

Our recommendations for improvements are set out on page 30.

Key Messages (continued)

Commentary on the Council's arrangements

Financial Sustainability

*How the body plans
and manages its
resources to ensure
it can continue to
deliver its services*

The Council recognised a final net revenue outturn position of an underspend of £1.1m (which included sales, fees and charges compensation), however there was a decrease to the general fund balance at year end of £1.1m (£8.2m to £7.1m). This was due to a one-off contribution from the balance to the revenue budget of £2.2m (as per the planned budget). At 31 March 2021, the Council had net assets of £97.4m (31 March 2020: £159.1m), total current assets of £76.5m (31 March 2020: £76.5m), and cash and cash equivalents of £11.9m (31 March 2020: £42.16m).

Management undertook significant improvements in their budget setting, budget monitoring, and governance processes as a result of an independent review completed by the Chartered Institute of Public Finance and Accounting (CIPFA), previous external audit findings, and internal challenge by senior management at both Board and Committee level.

Updated budget reports with increased detail were produced for Cabinet on a bi-monthly basis as a result of the findings. These included financial pressures for the Council, although we note 2020/21 was a unique year with increased pressures due to the Covid-19 pandemic.

We have concluded that there was not a significant weakness in the Council's arrangements in this area for 2020/21. This reflects improvements that were made in the year in response to previous recommendations from us and other third parties in respect of financial planning and budgeting (further details are included on page 17). In forming this view, we have considered the more recent financial challenges facing the Authority. However, the arrangements made by the Council in 2020/21 for 2021/22 and the medium term were based on the information available at the time and assumed a continued environment of low inflation and interest rates. The wider economic environment has significantly changed since 2021, which, together with on-going demand pressures on services (particularly social care) has resulted in the Council forecasting an overspend in 2023/24 and 2024/25 of £7.3m and £6.2m, respectively. The level of Council debt of £203m has resulted in increased costs of servicing the debt due to the interest rate rises, with payments of £8m and £14m forecast for 2023/24 and 2024/25, respectively. The Council highlighted the risk of a Section 114 notice if the overspend is not addressed as part of their 27 September 2023 Cabinet meeting.

We note that the factors impacting the Council's longer-term sustainability include:

- The Council's relatively lower level of council tax income, reflecting historic decisions not to increase council tax by the maximum permitted in previous years;
- The Council's level of borrowing for capital programmes, which is planned to be partly repaid from future capital receipts and the proceeds of development projects including the sale of assets; and
- The level of funding of the Pension Fund, which is relatively low at 86% funded (as at the 31 March 2022 actuarial revaluation), which requires additional deficit contributions to restore the funding position to 100% funded. The Council also needs to fund its share of the pension deficit in its joint venture, Achieving for Children.

Given the subsequent changes in the overall economic environment and increased pressures on councils in subsequent years, we will consider as part of our work in future years whether there are weaknesses in how the Council responded to, and on an on-going basis planned for, the developing pressures upon local authority financial sustainability.

Key Messages (continued)

Commentary on the Council's arrangements (continued)

Governance

How the body ensures that it makes informed decisions and properly manages its risks

The Council continues to monitor and assess risks in line with its risk management policy, and the risk register is reviewed and updated on a periodic basis.

As part of the Council's improvement plans from the recommendations for the CIPFA review, progress had been made. However, there remained outstanding actions at year end, including review of debt collection and provisioning procedures.

In addition, the Council's review of the 2020/21 Annual Governance Statement (AGS) highlighted weaknesses in arrangements in relation to 'implementing good practices in transparency, reporting, and audit to deliver effective accountability' and highlighted areas for improvement, such as review of the risk management arrangements and further training for the Overview and Scrutiny Panel.

We also note that the completion of our audit was delayed due to the quality of the draft financial statements and the working papers presented for the audit, and the significant issues we experienced in relation to the timeliness and accuracy of the information provided. This included material misstatements identified in both the 2019/20 and 2020/21 financial statements, which indicated serious and pervasive weaknesses in the financial accounting process and system of internal control.

The progress the Council has made against the action plan for the 2019/20 AGS highlighted improvements in areas such as revision of the roles and responsibilities of officers and members, establishment of a Capital Review Board (in 2020/21), additional external training, and reviews of organisational capacity. However, there were still areas in progress that were not completed until the 2021/22 financial year, including interactions and behaviours between members and officers, independent reviews of partnerships, and the delivery of a new Corporate Plan.

The Council has progressed on the action plan in relation to the independent pension governance review completed in year, however, only 14 of the 21 recommendations were complete by the end of the 2020/21 financial year (including reviewing and reducing the size of the Pension Fund Advisory Panel and implementing governance improvements, such as properly clerked and minuted meetings, with minutes checked before publication). We note that the remaining actions were completed by September 2022.

As detailed on pages 19 to 23, our consideration of the governance arrangements by the Council has identified two areas of significant weakness:

- Arrangements for reliable and timely financial reporting and maintaining a system of internal control; and
 - Governance arrangements in respect of information decision making and risk management.
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Key Messages (continued)

Commentary on the Council's arrangements (continued)

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

The Council uses financial and performance information to identify areas for improvement, address poor performance, and focus on areas for improvement. There is a bi-monthly budget monitoring process that is reported to the Cabinet and allows for the identification of emerging risks.

The Council works with various partners, and as part of the findings of the CIPFA review, it reviewed some of its larger partnerships to ensure they were providing the expected outcomes. We noted that the CIPFA review noted a recommendation in relation to reviewing key partnerships which the Council undertook in 2020/21, resulting in change where appropriate and recommendations being implemented where required.

The Council has a procurement framework in place which maintains a contracts register and includes key performance indicators (KPIs) which are routinely monitored.

We did not identify a significant weakness in the Council's arrangements in this area.

Purpose of this report

Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at The Royal Borough of Windsor & Maidenhead ("the Council") for the year ended 31 March 2021.

This report is intended to bring together the results of our work over the year at the Council, including commentary on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). This report fulfils the requirements of the Accounts and Audit Regulations for an Annual Audit Letter. The scope of our work is in respect of arrangements in place during the financial year ended 31 March 2021, and so, although we have considered subsequent events where they provide additional information about arrangements in year, our work, and this report, does not consider arrangements in place subsequent to 31 March 2021.

In preparing this report, we have followed the National Audit Office's ("NAO") Code of Audit Practice and its Auditor Guidance Note ("AGN") 03, Value for Money, and AGN 07, Auditor Reporting. These are available from the NAO website.

A key element of this report is our commentary on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). Our work considering these arrangements is based on our assessment of the adequacy of the arrangements the Council has put in place, based on our risk assessment. The commentary does not consider the adequacy of every arrangement the Council has in place, nor does it provide positive assurance that the Council is delivering or represents value for money.

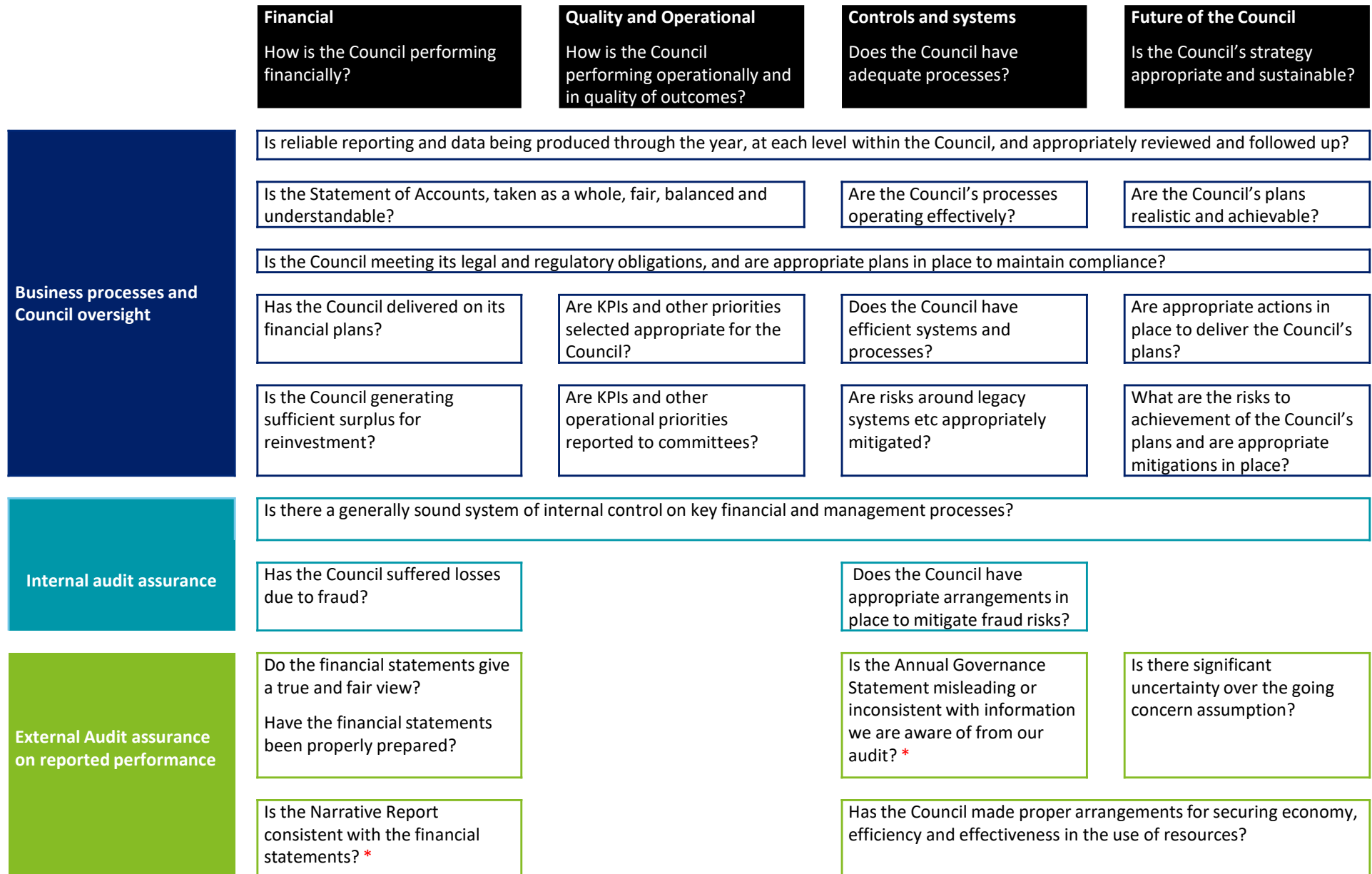
Where we identify recommendations, we indicate whether these are:

- Recommendations in respect of significant weaknesses in the Council's VfM arrangements, which we are required to make in accordance with paragraph 54 of AGN 03 where we identify a significant weakness, or
- Other recommendations, which we have referred to as "Deloitte Insights" (which are summarised in Appendix 1).

The significant weaknesses in the Council's VFM arrangements and related recommendations are set out on pages 15 onwards.

Assurance sources for the Council

The diagram below illustrates how the assurances provided by external audit around finance, quality, controls and systems and the future of the Council (in the green rows) fits with some of the other assurances available over the Council's position and performance.



* The scope of external audit in this area is "negative assurance" of reporting by exception of issues identified.

Opinion on the financial statements

We provide an independent opinion whether the Council's financial statements:

- Give a true and fair view of the financial position of the Council and its group at 31 March 2021 and of the Council's and group's income and expenditure for the year then ended;
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom in 2020/21.

The full opinion is included in the Council's Statement of Accounts, which can be obtained from the Council's website.

We conduct our audit in accordance with the NAO's Code of Audit Practice, International Standards on Auditing (UK) ("ISAs (UK)") and applicable law.

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements:

[We issued a qualified opinion on the Council and group's financial statements on [Date]. The basis of the qualification was a limitation of scope over National Non-Domestic Rates balances (and related figures in the Collection Fund and Collection Fund Adjustment Account), as due to system limitations the Council was unable to provide a breakdown of balances as at 31 March 2021.] [We issued an unqualified opinion on the Pension Fund financial statements on [date].]

As noted on page 11 to 15, a number of material adjustments were required to the draft financial statements, which have been reflected in the published accounts. We identified a number of significant control findings, which have been reflected in our reporting to the Audit and Governance Committee and which informed our value for money considerations and the significant weaknesses identified.

Narrative Report:

We reported that the information given in the Narrative Report for the year ended 31 March 2021 is consistent with the financial statements.

Annual Governance Statement:

We recommended that the Annual Governance Statement more clearly articulate the weaknesses identified in the Council's governance arrangements by internal and external reviews during 2019/20 and 2020/21, and include details of governance arrangements over the pension fund. Following amendments made, we did not identify any matters where, in our opinion, the Annual Governance Statement did not meet the disclosure requirements, was misleading, or was inconsistent with information of which we are aware from our audit.

Reports in the public interest and duties as public auditor:

We did not exercise any of our additional reporting powers in respect of the year ended 31 March 2021.

We received 22 potential objections from local electors during the year. We have reviewed these and concluded that we would not accept any as formal objections to be further investigated. This is as we did not identify any matters which we consider may warrant further consideration or a public interest report, or note any matters which required further consideration whether they gave rise to items of account that may be unlawful.

Audit Certificate:

We certified completion of the audit on [date], following completion of our responsibilities in respect of the audit for the year ended 31 March 2021.

Our audit approach

An overview of the scope of the audit

Our audit was scoped by obtaining an understanding of the Council and the environment it operates in, including internal control, and assessing the risks of material misstatement to the financial statements. Our risk assessment procedures include considering the size, composition, and qualitative factors relating to account balances, classes of transactions, and disclosures. This enables us to determine the scope of further audit procedures to address identified risks of material misstatement.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, led by the audit partner, Jonathan Gooding. The audit team included integrated Deloitte specialists bringing specific skills and experience in property valuations, pensions, and Information Technology systems.

Materiality

Financial statements

Our work is planned and performed to detect material misstatements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Group to be £6.4m and Council to be £6m, on the basis of 1.97% of Gross Expenditure.

We agreed with the Audit & Governance Committee that we would report to the Committee all audit differences in excess of £322k for the group and £299k for the Council as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Governance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Pension Fund

Based on our professional judgement, we determined materiality for the Pension fund to be £24.0m, on the basis of 1% of total net assets of the Fund. We agreed with the Audit & Governance Committee that we would report to the Committee all audit differences in excess of £1.2m for the pension fund, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Procedures for auditing the financial statements (including the pension fund statements)

Our audit of the financial statements included:

- developing an understanding of the Council, pension fund and group, including its systems, processes, risks, challenges, and opportunities and then using this understanding to focus audit procedures on areas where we consider there to be a higher risk of misstatement in the financial statements;
 - performing sample tests on balances in the financial statements to supporting documentary evidence, as well as other analytical procedures, to test the validity, accuracy and completeness of those balances; and
 - data analytic techniques were used as part of audit testing, in particular to support profiling of populations to identify items of audit interest and in journal testing, using our Spotlight data analytics platform.
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Our audit approach (continued)

Approach to audit risks

We focused our work on areas where we considered there to be a higher risk of misstatement, which we refer to as significant risks. We have summarised below the significant risks we identified for the Council and Pension Fund audits, and whether findings were identified.

We identified a number of material misstatements which required correction in both the Council and Pension Fund financial statements (including misstatements in other areas of the accounts preparation process where errors identified in finalisation of the 2019/20 audit which also impacted upon the 2020/21 financial statements). We also identified a number of significant control findings, including over the overall financial reporting and close process and quality of draft financial statements (which informed the significant weaknesses we have identified in VfM arrangements). Our detailed findings, including our schedule of unadjusted misstatements, were reported to the Audit and Governance Committee on [date].

Following completion of our audit procedures, and after the adjustments made to the financial statements, we concluded that we had obtained sufficient appropriate audit evidence in respect of each area of our audit, other than in respect of NNDR-related balance sheet items (as discussed on page []), for which supporting breakdowns were not available to enable testing].

Significant risk	Adjusted misstatements identified	Unadjusted misstatements identified	Control findings identified
<p>Valuation of property assets - Council The Council is required to hold property assets within Property, Plant and Equipment and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions, and which can be subject to material changes in value. Our approach included using Deloitte valuation specialists to review and challenge the assumptions used in the valuation, testing a sample of inputs to the valuation, and testing whether valuation entries had been appropriately recorded.</p>	✓	-	✓
<p>Capital expenditure - Council The Council recognised capital additions of £23.5m for the year, and a further £3.6m on revenue expenditure which, for funding purposes, is treated in the same way as capital expenditure (REFCUS). Determining whether expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards. We tested a sample of capital items to determine whether they had been appropriately capitalised in accordance with the accounting requirements.</p>	-	✓	✓

Our audit approach (continued)

Significant risk (continued)	Adjusted misstatements identified	Unadjusted misstatements identified	Control findings identified
<p>Management override of controls – Council</p> <p>Auditing standards require us to identify a significant risk of management override of controls, and perform work specifically in certain areas, including journals, accounting estimates and significant or unusual transactions.</p> <p>We used data analytic tools to risk assess journals and select items for testing.</p> <p>We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value.</p>	✓*	✓*	✓
	* Adjustments were identified in respect of accounting estimates through our standard audit procedures, but we did not identify any as being due to fraud		
<p>Valuation of the longevity hedge – Pension Fund</p> <p>The Fund holds a material longevity insurance policy to hedge longevity risk. A longevity hedge is designed to insure the Fund against the risk that pensioners live longer than the current mortality assumptions. The valuation of the longevity hedge is sensitive to relatively small movements in the key assumptions used in the actuarial calculations. Our approach included using Deloitte actuarial specialists to review and challenge the valuation based on the underlying terms of the contract and forecast cash flows.</p>	-	-	✓
<p>Management override of controls – Pension fund</p> <p>Auditing standards require us to identify a significant risk of management override of controls, and perform work specifically in certain areas, including journals, accounting estimates and significant or unusual transactions.</p> <p>We used data analytic tools to risk assess journals and select items for testing.</p> <p>We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value.</p>	-	-	✓

Our audit approach (continued)

Other areas of audit focus

Although not identified as significant risks under auditing standards, we have also summarised below our approach to other areas of audit focus relevant to an understanding of our 2020/21 audit and our overall findings.

Other area of audit focus	Adjusted misstatements identified	Unadjusted misstatements identified	Control findings identified
<p>National Non-Domestic Rates debtor and creditor balances</p> <p>As billing authority, the Council is responsible for the collection of council tax and rates on behalf of itself, other authorities, and central government. The Council recognises its own share of collection fund related debtors and creditors, and shows the net balance receivable from/due to other bodies for their share of collection fund balances.</p> <p>At 31 March 2021, the Council’s Collection Fund debtor balance included £0.9m of NNDR debtors (net of provisions) for RBWM’s share, and £24.6m due from other bodies (primarily amounts due from government to compensate for covid-related reliefs). The creditor balance included £6.2m for RBWM’s share of amounts prepaid by taxpayers and other adjustments.</p> <p>Due to system limitations, the Council has been unable to provide a breakdown of the NNDR-related debtor and creditor balances as at 31 March 2021. We have therefore not been able to perform testing on these balances, including testing post year-end recovery of debtors.</p> <p>This represents a “limitation of scope” upon our audit on these balances. This also affects related balances that would be affected by errors in these balances, which would affect the amounts reported in the Collection Fund note for NNDR balances, and the Collection Fund Adjustment Account in reserves.</p> <p>[We therefore issued a qualified opinion on the Council and group’s financial statements].</p>	<p>N/A – limitation of scope</p>	<p>N/A – limitation of scope</p>	<p>✓</p>

Our audit approach (continued)

Other area of audit focus (continued)	Adjusted misstatements identified	Unadjusted misstatements identified	Control findings identified
<p>Valuation of pension liability - Council The Council is both the administering authority and is an admitted body of the Royal County of Berkshire Pension Fund. The valuation of the pension liability in the Council accounts is based upon actuarial assumptions and calculations.</p> <p>Our approach included using Deloitte actuarial specialists to review and challenge the assumptions used in the valuation of the pension liability, including benchmarking against our expected range of assumptions.</p>	-	✓	-
<p>Recognition of Covid-19 grants - Council During 2020/21, the Council received funding in relation to Covid-19 grants of £84.8m, including amounts received in respect of business support schemes designed to help eligible businesses during the Covid-19 pandemic that are being administered by Councils on behalf of Central Government. The Council needed to assess whether it was acting as agent to pass grants on, or principal receiving funding, and whether grants had conditions impacting timing of income recognition.</p> <p>We tested a sample of grants and considered whether the treatment was consistent with the terms of the agreements and our expectations for the grant type.</p>	-	-	✓
<p>Infrastructure assets - Council We noted weaknesses in our 2018/19 audit in the Council's recording of infrastructure assets. During the finalisation of our 2019/20 audit, a number of related issues around infrastructure assets were noted nationally, which were the subject of extensive discussions led by CIPFA and DLUHC to seek a solution to the issues identified. This resulted in a statutory override being made available to councils, which the Council adopted in preparing the final 2019/20 and 2020/21 financial statements.</p> <p>The Council has reassessed the useful economic lives of assets for future periods, and we have reviewed and challenged the approach adopted and evaluated the impact of not adjusting useful lives in the current year.</p>	✓	✓	✓

Our audit approach (continued)

Other area of audit focus (continued)	Adjusted misstatements identified	Unadjusted misstatements identified	Control findings identified
<p>Restatement of cash and investment balances held for other entities - Council The Council holds funds on behalf of a number of other organisations, most significantly the Thames Valley Local Enterprise Partnership, as disclosed in note 43 to the financial statements. The Council has historically netted the amount due to the entity against cash or investments held. During the current year, the Council's cash and investment balances were lower than amounts held for other bodies, as cash had been used to fund Council capital expenditure rather than borrowing from other sources, and the amounts due to the Local Enterprise Partnership and other bodies have been presented as borrowings rather than netted off. Following review of the arrangements and whether separately identifiable investments were held on behalf of other bodies, the Council restated the comparative financial statements to consistently show cash and investments held in Council accounts as assets, and a related liability in borrowings.</p> <p>We have recommended the Council put in place documented agreements with the other organisations setting out arrangements over funds held on their behalf, and ensuring appropriate governance that reflects individual arrangements (see Insight 1 on page 32). We have not identified a risk of significant weakness in respect of this, as amounts due to other parties have been correctly recorded in the underlying financial records, and there are not specific requirements for how such funds should be managed.</p>	✓	-	✓
<p>Restatement for accounting for a property disposal - Council The Council had entered into a transaction to transfer land to a developer on a 250 year lease in 2018/19. The lease premium is payable at the start of the lease term, with only peppercorn rentals thereafter. The Council received an initial 10% deposit in 2018/19, but did not account for the remaining 90% of the premium which was receivable as plots within the development were sold.</p> <p>The financial statements have been restated to recognise the outstanding receivable at 31 March 2019 and 31 March 2020, with the residual outstanding amount adjusted in the 31 March 2021 accounts.</p> <p>We tested the adjustments made and the adequacy of the accounts disclosures on the restatement.</p>	✓	✓	-

Auditor's work on Value for Money (VfM) arrangements

The Accounting Officer and the Council are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

The Accounting Officer reports on the Council's arrangements, and the effectiveness with which the arrangements are operating as part of their Annual Governance Statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Under the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under three areas:

Financial Sustainability	<i>How the body plans and manages its resources to ensure it can continue to deliver its services</i>
Governance	<i>How the body ensures that it makes informed decisions and properly manages its risks</i>
Improving economy, efficiency and effectiveness	<i>How the body uses information about its costs and performance to improve the way it manages and delivers its services</i>

In this report, we set out the findings from the work we have undertaken:

We identified three risks of significant weakness, which are set out with our conclusions and recommendations on pages in the following pages.

- Our overall VfM commentary on each of financial sustainability, governance, and improving economy, efficiency and effectiveness are set out on pages 24 to 30. Other recommendations (not in respect of significant weaknesses) are included in Appendix 1: Insights.

In planning and performing our work, we consider the arrangements that we expect bodies to have in place, and potential indicators of risks of significant weaknesses in those arrangements. As a result of the Covid-19 pandemic, there have been changes in nationally led processes, changes in expectations around Council's arrangements, and events occurring outside of the Council's control, which affect the relevance of some of these indicators. We have still considered whether these indicators are present, but have considered them in the context of the circumstances of 2020/21 in assessing whether they are indicative of a risk of significant weakness.

In addition to our financial statement audit, we performed a range of procedures to inform our VfM commentary, including:



Interviews with key stakeholders, including the Deputy Director of Finance, the Director of Law & Governance and the Head of the Pension Fund.



Review of Council and committee reports and attendance at Audit & Governance meetings.



Reviewing reports from third parties including internal audit.



Considering the findings from our audit work on the financial statements.



Review of the Council's Annual Governance Statement and Narrative Report.

Risk of significant weaknesses in VfM arrangements

Risk title	1. Arrangements for planning finances
Relevant VFM criteria per AGN03	<i>Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services</i> <ul style="list-style-type: none">• <i>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</i>
Risk description	<p>In 2019/20, we concluded that there were significant weaknesses in the Council's arrangements with respect to planning its finances effectively to support the delivery of strategic priorities, and maintaining its statutory functions.</p> <p>This was due to:</p> <ul style="list-style-type: none">• Weaknesses identified through the CIPFA independent review of financial governance arrangements, including in the Medium-Term Financial Strategy (MTFS), treasury management strategy (and its compliance with relevant guidance and the legislation governing these documents), budget setting, budget monitoring against performance, the capital strategy, and the updated capital programme;• Our audit findings which included arrangements for understanding and using appropriate and reliable financial information to monitor performance, and support informed decision making and financial planning;• An overspend of the Council's revenue budget of £2.4m (excluding the impact of Covid-19); and• The level of the Council's usable reserves being at the lower end of the range when benchmarked against other similar Councils. <p>We therefore identified a risk of significant weakness for the 2020/21 audit in these areas.</p>
Work performed	<ul style="list-style-type: none">• We have reviewed the CIPFA Report issued in July 2020, which concluded that the actions taken by that point had addressed the principal issues in this area in setting the 2020/21 budget in February 2020, which then has been monitored against during 2020/21.• We have reviewed the Annual Governance Statement and other documentation in respect of the Council's arrangements in year and performance in monitoring and planning finances (in the highly unusual context of the Covid-19 pandemic).• We have reviewed the financial outturn against budget for 2020/21, the budget setting process for 2021/22 in February 2021, and outturn during 2021/22. The Council had an underspend in 2021/22 of £2.4m, which resulted in an increase in the usable reserves balance. The main reason for the underspend related an underspend of a Covid-19 budget that was gradually released in the year.

Risk of significant weaknesses in VfM arrangements (continued)

Risk title	1. Arrangements for planning finances (continued)		
Work Performed (continued)	<ul style="list-style-type: none"> We have reviewed the updated MTFs and considered it in the context of budget setting and budget monitoring. The Council have clearer linkages in reporting and monitoring between the MTFs and monitoring which was demonstrated in the reports to the relevant committees. We have reviewed the updated Treasury Management Strategy (including the mid-year update, and its compliance with guidance), the updated Capital Strategy, and the updated capital programme. All three have been improved following the findings of the CIPFA review and have incorporated the wider objectives of the Council, including linkage to the transformation plan which demonstrates an improvement in the planning for the Council's finances. 		
Conclusion	<p>We have not identified a significant weakness in the arrangements for planning finances in respect of 2020/21.</p> <p>As discussed on page 25, the wider economic environment has significantly changed since 2021, which, together with on-going demand pressures on services (particularly social care) has resulted in the Council forecasting an overspend in 2023/24 and 2024/25. The overall financial position of the Council, with relatively higher borrowings due to capital programmes, relatively lower level of council tax income, and relatively low funding levels in the Pension Fund, increase its exposure to these pressures. The Council highlighted the risk of a Section 114 notice if the forecast overspend is not addressed as part of their 27 September 2023 Cabinet meeting.</p> <p>Therefore, although we have concluded that there was not a significant weakness in the Council's arrangements in this area for 2020/21, we will consider as part of our work in future years whether there are weaknesses in how the Council responded to, and on an on-going basis planned for, the developing pressures upon local authority financial sustainability.</p>		
Does a weakness exist in the current year?	Is a recommendation required in the current year?	Has this matter be referred to in our audit opinion?	
No - as set out above we have concluded that there is not a significant weakness.	No – no recommendation has been given as no significant weakness has been identified.	No – as no significant weakness has been identified, it has not been referred to in our opinion.	

Risk of significant weaknesses in VfM arrangements (continued)

Risk title	2. Arrangements for reliable and timely financial reporting and maintaining a sound system of internal control
Relevant VFM criteria per AGN03	<p><i>Governance: how the body ensures it makes informed decisions and properly manages its risk</i></p> <ul style="list-style-type: none"> <i>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.</i>
Risk description	<p>In 2019/20, we concluded that there were significant weaknesses in the Council’s arrangements with respect to reliable and timely financial reporting and maintaining a sound system of internal control.</p> <p>This reflected that:</p> <ul style="list-style-type: none"> a number of significant control recommendations were made following the prior year audit had not yet been implemented by the Authority and the Pension Fund, with further significant deficiencies in internal control identified in the 2019/20 audit; and whilst the Council had taken action in accordance with its action plan to respond to the findings of the CIPFA review, not all recommendations had been implemented in the period, with on-going review into 2020/21. <p>We therefore identified a risk of significant weakness for the 2020/21 audit in these areas.</p>
Work performed	<ul style="list-style-type: none"> We reviewed the 2020/21 draft Annual Governance Statement, which highlighted a weakness in arrangements in relation to 'implementing good practices in transparency, reporting, and audit, to deliver effective accountability'. We reviewed the progress against the action plans in response to the CIPFA Review. Although progress was made in the year against the action plan, a number of actions in this area were not fully complete during the period (such as reporting debt management in budget monitoring reports and reviewing bad debt provisions on a regular basis), or only completed late in the year (such as the improving management of the capital programme, and improving the understanding of the impact of decisions on financial sustainability and wider aims of the Council). We considered the control findings identified during previous periods that had not yet been addressed during 2020/21, and the additional significant control findings identified in our audit of the 2020/21 accounts, set out in our Audit & Governance Committee Report. We considered our observations on the quality of the draft financial statements and working papers presented for audit. As noted elsewhere in this report, there were significant issues with the quality, timeliness, and accuracy of the information provided, and material misstatements identified in both the 2019/20 and 2020/21 financial statements.

Risk of significant weaknesses in VfM arrangements (continued)

Risk title	2. Arrangements for reliable and timely financial reporting and maintaining a sound system of internal control (continued)		
Conclusion:	We have concluded that there is a significant weakness in the Council’s arrangements in this area. As required by the Code of Audit Practice and Auditor Guidance Note 03, Value for Money, we have made recommendations below, which reflect on-going actions taken since the period.		
	Does a weakness exist in the current year?	Is a recommendation required in the current year?	Has this matter be referred to in our audit opinion?
Recommendation	Yes - there is evidence of a significant weakness in the Council’s governance arrangements.	Yes – recommendations have been as set out below.	Yes - the significant weakness identified and our recommendation were referred to in our audit opinion.
	<p>We recommend:</p> <ul style="list-style-type: none"> • The Council undertakes a detailed review of the capability and capacity in the finance function, including the capability and capacity to deliver a high-quality statement of accounts and supporting work papers before the deadline for the audit, and sufficient capacity and capability to respond to audit queries during the audit period. We recommend that this includes training of finance function and other functions that input to the financial reporting process on the adequacy of information prepared and retained to support the accounting entries, a detailed review of the control framework for financial reporting which includes implementation of internal and external recommendations, and review and implementation of improved quality control arrangements over the preparation of the statement of accounts and supporting work papers; • The Council continues to progress actions to address other control recommendations we have reported for both the Authority and Pension Fund raised in both the current year and prior years, and, where already implemented, to maintain and monitor the process improvements and control changes; and • Following completion of implementation of the Council’s action plan to respond the CIPFA Financial Governance Review, the Council ensures on-going maintenance and monitoring of the operation of the new processes and procedures. 		

Risk of significant weaknesses in VfM arrangements (continued)

Risk title	3. Governance arrangements in respect of informed decision making and risk management
Relevant VFM criteria per AGN03	<p><i>Governance: how the body ensures it makes informed decisions and properly manages its risk</i></p> <ul style="list-style-type: none"> • <i>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</i>
Risk description	<p>In 2019/20, we concluded that there were significant weaknesses in the Council’s governance arrangements (including in respect of the Pension Fund) with respect to arrangements for acting in the public interest through demonstrating and applying the principles and values of sound governance. In particular:</p> <ul style="list-style-type: none"> • The pensions governance review noted a disconnect between the pension fund and the council with no regular reporting. The report also made several recommendations that highlighted weaknesses in arrangements relating to the size and membership of the relevant Boards, Panels, and Group; the level of involvement and training of individuals within those governance structures; and the adequacy of recording and reporting of discussions and decisions made within those governance structures, as well as a number of other recommendations in respect of the Pension Fund; and • The Council’s Annual Governance Statement drew attention to weaknesses in a number of other areas, including: a lack of organisational capacity in key areas; a lack of clarity from officers and members with regard to their roles, responsibilities, and the associated required procedures; a culture within the organisation that did not encourage people to speak out or properly exercise their roles as advisors; non-compliance with public sector network requirements due to the significant investment needed in IT infrastructure and on-going work on the IT strategy and implementation; and weaknesses in financial governance including robustness of challenge of business cases and benefit reporting, weaknesses in procurement and contract management. <p>We therefore identified a risk of significant weakness for the 2020/21 audit in these areas.</p>
Work performed	<ul style="list-style-type: none"> • We reviewed progress against the 2019/20 Annual Governance Statement action plan, and the 2020/21 draft Annual Governance Statement and related action plan (which included further actions required in respect to ‘Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law’, ‘Ensuring openness and comprehensive stakeholder engagement’, ‘Developing the entity’s capacity, including the capability of its leadership and the individuals within it’, ‘Determining the interventions necessary to optimise the achievement of the intended outcomes’, ‘Managing risks and performance through robust internal control and strong public financial management’, and ‘Implementing good practices in transparency, reporting and audit to deliver effective accountability’).

Risk of significant weaknesses in VfM arrangements (continued)

Risk title **3. Governance arrangements in respect of informed decision making and risk management (continued)**

Work performed (continued)

- From our review of the progress against the 2019/20 Annual Governance Statement plan, we note the Council made progress in the 2020/21 year including a revision of the roles and responsibilities of officers and members, including knowledge of appropriate procedures, workshops on good governance, a new code of conduct, establishment of a Capital Review Board, external training, initial reviews of organisational capacity in key areas, and circulation of reports to key officers prior to publication to ensure stronger decision making. A number of actions were not completed until 2021/22 per management action trackers, which we will consider in further detail in our 2021/22 VfM work, which included training on interactions and behaviours between members and officers, further independent reviews around partnerships (noting Optails and AFC were underway), delivery of a new Corporate Plan and filling the organisational capacity gaps in key areas.
- The actions in the 2020/21 Annual Governance Statement plan were identified as actions for future periods, and so had not been implemented in the period. Management's action tracker against this plan shows progress during 2021/22 (which we will consider in our 2021/22 VfM work), including the completion of a new Corporate Plan, development of a new performance management framework, review of risk management arrangements, and further training for the Overview and Scrutiny panels. Management considered the remaining actions to be completed by the end of 2022, which included the implementation of the leadership development programme, and improvements in the Council's governance of over RBWM Property Company Ltd.
- We reviewed progress against the pension governance review action plan, and noted that 14 of the 21 recommendations were addressed in the 2020/21 year including reducing the size of the Pension Fund Advisory Panel, abolishing the Pension Fund Panel Sub-Committee (investment group), putting in place a control that governance changes are approved in line with the Council's Constitution and all meetings are properly clerked and minuted, with minutes checked before publication. Management's action tracker (which we will consider in subsequent year's VfM work) shows that of the remaining seven recommendations, five were actioned by the end of 2021/22, including the appointment of a new post for a Head of Pension Fund (to drive further improvements) and reviewing of the Pension Board membership, and the final two were actioned by September 2022.
- We considered the findings from the Local Government Association Corporate Peer Challenge which, although taking place after the 2020/21 year, highlighted continued weaknesses in governance arrangements that were in place during the year. Areas for improvement identified included prioritising embedding the Corporate Plan across the Council, including the establishment of a new performance framework which links service plans and priorities to budget and risks over the medium-term, reviewing the current model of scrutiny committees, and developing a clear and consistent framework on the role and governance of the arms-length Council entities.

Risk of significant weaknesses in VfM arrangements (continued)

Risk title	3. Governance arrangements in respect of informed decision making and risk management		
Work performed (continued)	<ul style="list-style-type: none"> We reviewed progress on actions arising from the CIPFA review which indicated that although progress had been made in addressing the recommendations raised, not all were completed until after the 2020/21 year-end. These included the review of the capital programme (to ensure there were robust business cases with clear delivery outcomes and risk management), improvements to culture in the Council, and review of the internal audit partnership arrangement. We reviewed the changes made to capital project governance as a result of establishing the Capital Review Board. This has increased consideration of factors such as longer-term funding costs and on-going monitoring of project feasibility, compared to historic emphasis on speed of delivery to achieve regeneration aims (reflected in previous findings from the CIPFA review). The Council has also revised its capital strategy. 		
Conclusion	<p>We have concluded that there is a significant weakness in the Council's arrangements in this area. As required by the Code of Audit Practice and Auditor Guidance Note 03, Value for Money, we have made recommendations below, which reflect on-going actions taken since the period.</p>		
	Does a weakness exist in the current year?	Is a recommendation required in the current year?	Has this matter be referred to in our audit opinion?
	Yes - there is evidence of a significant weakness in that the Council's governance arrangements	Yes – recommendations have been set out below	Yes - the significant weakness identified and our recommendation were referred to in our audit opinion.
Recommendation	<p>We recommend that the Council:</p> <ul style="list-style-type: none"> Following the post year-end implementation of the action plans responding to the CIPFA Financial Governance Review and independent review of Pension Fund governance, continues to monitor the on-going operation of the new processes and procedures. Following the post year-end implementation of the AGS action plans put in place for 2019/20 and 2020/21, continues to maintain and monitor the on-going operation of the new processes and procedures. Implements actions identified in response to the LGA Corporate Peer Challenge reports in 2022, and, once implemented, continues to maintain and monitor the on-going operation of the new processes and procedures. 		

VfM arrangements: Financial Sustainability

Approach and considerations

We have considered how the Council plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Council ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Council identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

Commentary

The Council recognised a final net revenue outturn position as an underspend for the year of £1.1m (including sales, fees and charges compensation), that included a one-off general fund movement of £2.2m (per the planned budget). At 31 March 2021, the Council had net assets of £97.4m (31 March 2020: £159.1m), total current assets of £76.5m (31 March 2020: £76.5m), and cash and cash equivalents of £11.9m (31 March 2020: £42.16m). At 31 March 2021, the Council had total usable reserves of £62.3m, which included a general fund balance of £7.1m and earmarked reserves of £35.7m.

As part of its response to the CIPFA review findings and our 2019/20 audit findings, the Council reviewed and revised its medium term financial strategy (MTFS) alongside updated budget setting and budget monitoring processes for the year. This resulted in an increased level of detail being included and challenged before being presented to Cabinet in February 2021.

Updated budget reports, which incorporate the recommendations raised, were produced for Cabinet on a bi-monthly basis, which identified overspends or underspends compared to budget. The Council continued to identify financial pressures through its monitoring reports and strategic risk register, which considered the impact and likelihood of key risks as well as mitigating actions.

The Council's annual planning process and process around the identification of significant pressures was significantly impacted by the Covid-19 pandemic. We saw evidence that the Council adapted its arrangements to respond, and they were in line with our expectations in the current operating environment.

The reporting to relevant committees and Cabinet was improved, and we note that the budgets and MTFS make references to capital strategy and treasury management strategy, ensuring the financial plan is consistent with other plans, such as the Corporate plan.

The Council incorporated sensitivity analysis in relation to its reporting, which included the impact of borrowing as part of interest rate rises and the cost to service the debt in such areas. Where risks have been identified by the Council in relation to financial sustainability, these have not been quantified, and we therefore recommend that the potential impact of the risks be quantified. See insight four in Appendix 1.

The Council's consideration of its financial commitments and of the interaction of capital expenditure, borrowing, and proceeds from property disposals, requires consideration of transactions which go beyond the term of the MTFS. We recommend that the Council documents at least high level longer term planning assumptions and interactions, to ensure longer term commitments and risks are fully understood and considered by members. See insight five in Appendix 1.

We have not identified significant weaknesses in respect of these insights, as the Council's arrangements are consistent with the expected arrangements for local authorities, and represent best practice recommendations.

VfM arrangements: Financial Sustainability (continued)

Commentary

The arrangements made by the Council in 2020/21 for 2021/22 and the medium term were based on the information available at the time and assumed a continued environment of low inflation and interest rates. However, the wider economic environment has significantly changed, which, together with on-going demand pressures on services (particularly social care) has resulted in the Council forecasting an overspend in 2023/24 and 2024/25 of £7.3m and £6.2m, respectively. The level of Council debt of £203m has resulted in increased costs of servicing the debt due to the interest rate rises, with payments of £8m and £14m forecast for 2023/24 and 2024/25, respectively. The Council highlighted the risk of a Section 114 notice if the overspend is not addressed as part of their 27 September 2023 Cabinet meeting.

The Council's general fund and earmarked reserves position has historically been relatively low (£13.6m at 31 March 2019), with increases during the pandemic due to the timing of receipt of support funding compared to related costs. The general fund is relatively low for the size of the Council.

Comparing to the CIPFA comparator group, while not at the extremes of the comparator group as noted in our audit report, the Council has above average debt compared to its income, and lower reserves compared to income.

We note that the factors impacting the Council's longer-term sustainability include:

- The Council's relatively lower level of council tax income, reflecting historic decisions not to increase council tax by the maximum permitted in previous years;
- The Council's level of borrowing for capital programmes, which is planned to be repaid from the proceeds of development projects; and
- The level of funding of the Pension Fund, which is relatively low at 86% funded (as at the 31 March 2022 actuarial revaluation), which requires additional deficit contributions to restore the funding position to 100% funded. The Council also needs to fund its share of the pension deficit in its joint venture, Achieving for Children.

These factors are reflected in the Council's Medium Term Financial Strategy and Plan. The increasing focus upon the financial sustainability of local authorities means that this will be an area of on-going consideration in auditor's value for money work and commentary for future periods.

The Council's pension position was a deficit in 2020/21 which resulted in the Council making secondary contributions to reduce the deficit. The Council will need to ensure it manages its cashflows in the medium and longer term in order to ensure it can continue to meet the requirements of the funding agreed with the actuary.

VfM arrangements: Governance

Approach and considerations

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

- 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;
- How the body approaches and carries out its annual budget setting process;
- 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); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

Commentary

The Council continues to monitor and assess risks in line with its risk management policy and the risk register is reviewed and updated on a periodic basis.

The Council also has a Counter Fraud function (via their internal audit team) that supports in mitigating the risks of fraud and corruption. An annual counter fraud programme is agreed upon, which includes fraud detection, investigation, and loss recovery. The results of the counter fraud activity are reported to the Audit & Governance Committee throughout the year.

The budget setting process is a collaborative approach that involves directorate management as well as core finance teams. The budget is presented to Cabinet annually in February for the year ahead, which is subject to scrutiny from the Senior Leadership Team and Cabinet.

The Council undertakes budget reviews on a bi-monthly basis, and all decisions and approvals are made in line with the Constitution. The Council publishes and maintains its Constitution, which details the structure and workings of the Council, including all the rules and procedures under which it operates. The Constitution sets out who makes decisions, how they are made, and the rights of citizens to obtain information and influence decisions. The Constitution is reviewed regularly by the Council.

The Council has a series of policies covering internal controls, including a whistleblowing policy. These policies are readily available for all staff to review on the Council's website.

In response to Covid-19, Covid Silver/Gold meetings were held consisting of senior leadership teams, which were reduced to bi-weekly meetings to discuss the impact on services and solutions to continually deliver key services.

Internal audit undertakes a risk-based programme of internal audit. The Audit & Governance Committee approves the annual Internal Audit Plan and receives updates at committee meetings throughout the year. The Council decided to move to a different internal audit service (SWAP) from their IA function in 2020/21 (joint with Wokingham Borough Council). This was on the basis of a finding from the CIPFA review.

VfM arrangements: Governance (continued)

Commentary

The Council has a number of staff policies in place, including a code of conduct. These are all contained within the Constitution and are readily available for all staff to access. A register of officers' interests and a register of officers' gifts and hospitality are maintained.

The Council also had a code of conduct for members, which includes a register of members' interests, a register of members' gifts and hospitality, and a compliant procedure for complaints that members may have breached the code. The Standards Committee, supported by the Monitoring Officer, assists and advises members and the Council on standards issues, monitors the operation of the members' code of conduct, and where necessary, determines complaints that members may have breached the code.

The Council has included as part of their review of the 2020/21 draft Annual Governance Statement an area of weakness in relation to the arrangements for 'implementing good practices in transparency, reporting, and audit to deliver effective accountability'.

The overall progress against the action plan as a result of the CIPFA review highlighted that although significant progress was made in the year, a number of actions in this area were not completed during the period (such as debt collection and provisioning) or only completed late in the year (such as the capital programme).

A number of audit recommendations that were raised during the 2019/20 audit have remained open during 2020/21. We recognise that the timing of the 2020/21 accounts preparation process means that issues could not necessarily be addressed in this period – however, we also note that on-going work has been needed by the finance team to address issues in financial processes, that are still being embedded (and so also impact later years. We have also identified further recommendations as part of our 2020/21 audit and the completion of our audit was significantly delayed due to the quality of the draft financial statements and working papers that were presented for audit. We also identified significant issues in relation to the timeliness and accuracy of the information provided, which has resulted in a number of material misstatements in the 2020/21 financial statements. On the basis of the above, we have concluded that these matters are indicative of a significant weakness in the arrangements for reliable and timely financial reporting and maintaining a sound system of internal control.

The progress the Council has made against the action plan for the 2019/20 AGS highlighted improvements in areas such as revision of the roles and responsibilities of officers and members, establishment of a Capital Review Board (in 2020/21), additional external training, and reviews of organisational capacity. However, there were areas that were still not complete in relation to the 2019/20 action plan until the 2021/22 financial year, such as interactions and behaviours between members and officers, independent reviews of partnerships, and the delivery of a new Corporate Plan.

VfM arrangements: Governance (continued)

Commentary

We noted improvements in relation to the governance decisions made for taking capital projects forward as a result of the establishment of the Capital Review Board. The Council shifted its focus in relation to projects such as the Braywick Leisure Centre (completed in summer 2020), where previously the focus on projects was weighted on speed of delivery for regeneration of the area, it was now made broader to ensure more emphasis was made to other considerations such as longer-term impacts of costs to fund the project (increased borrowing), increased continual feasibility monitoring and the revised capital strategy.

In relation to the findings and progress against the action plan of the independent pension governance review, 14 of the 21 recommendations were complete by the end of the 2020/21 financial year (including reviewing and reducing the size of the Pension Fund Advisory Panel and implementing governance improvements such as properly clerked and minuted meetings, with minutes checked before publication). We note that the remaining actions were completed by September 2022.

The Council is continually improving its governance arrangements as a result of the reviews that have occurred; however, the findings from the Local Government Association Corporate Peer Challenge, which took place after the 2020/21 year, highlighted continued weaknesses in the governance arrangements that were in place during the year to 31 March 2021. Areas for improvement identified included prioritising embedding the Corporate Plan across the Council, including the establishment of a new performance framework that links service plans and priorities to budget and risks over the medium term, reviewing the current model of scrutiny committees, and developing a clear and consistent framework on the role and governance of the arms-length Council entities.

In addition, progress against the action plan following the CIPFA review indicated that although progress had been made in addressing the recommendations raised, not all were completed until after the 2020/21 year-end. These included the review of the capital programme (to ensure there were robust business cases with clear delivery outcomes and risk management), improvements to culture in the Council, and a review of partnership arrangements (which we note the Council has now undertaken for the major partnerships that were highlighted in the findings). On this basis, we have concluded that these matters are indicative of a significant weakness in the governance arrangements with respect to informed decision-making and risk management.

In relation to public inspection period for 2020/21 accounts, the Council did not fully comply with the Local Audit and Accountability Act 2014 (Regulation 15) as it did not include its Annual Governance Statement (AGS) within the draft financial statements when uploading the document on its website – the Annual Governance Statement was separately published in committee papers. We also note that, although the Council is only required to publish notice of the inspection period on its website, the Council may wish to consider whether other notice mechanisms could improve accessibility for members of the public who may not have internet access. See insight three in Appendix 1. We have not identified a significant weakness in respect of this as this is primarily an administrative point

VfM arrangements: Improving economy, efficiency and effectiveness

Approach and considerations

We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the Council evaluates the services it provides to assess performance and identify areas for improvement;
- How the Council 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; and
- Where the Council commissions or procures services, how the Council ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the Council assesses whether it is realising the expected benefits.

Commentary

Financial and performance information is used by the Council to identify areas for improvement, addressing any poor performance, and using information on good performance to continuously improve. There is continual monitoring by senior officers, service leads, and the senior leadership team, which is reported to Cabinet bimonthly.

The Council's management accounts process and monthly monitoring is focussed upon net outturn (rather than review of income and expenditure values against budget, or of the balance sheet and cashflow movements in the period). Although this approach is common in local government, this means that the review processes are less able to detect fraud or error, and we do not consider this to be in line with best practice. We recommend management consider implementing a full monthly management account process, with review against budget for income and expenditure by type, and review of the balance sheet position. This may require consideration of which accruals processes are appropriate to operate each month (or quarter), and which are appropriate as annual processes. See insight two in Appendix 1. We have not identified a significant weakness in this regard, as the Council's arrangements are in line with general practice for local authorities.

The Council works with various partners to achieve its objectives, which include the review and consideration of outputs in relation to key objectives and their wider strategy. As part of the CIPFA review findings, the Council reviewed its key partnership arrangements and reported the recommendations and actions taken to Cabinet.

The Council has a procurement framework in place and maintains a contract register. All contracts agreed upon are reviewed to ensure they comply with the rules set by the Council, and all contain key performance indicators that are routinely monitored. There is legal oversight through Shared Legal Services, and monthly contract meetings are used to monitor activity and assess performance and potential financial implications. The level of scrutiny for each procurement contract depends on the value of the contract and the bands set out in the Financial Regulations.

The Council assesses whether it is realising the expected benefits of contracts by reviewing procurement contracts using corporate evaluation methods.

The Council undertook a review of its key partnerships following the CIPFA review and identified recommendations for these (specifically in relation to internal audit services, Optalis and Achieving For Children). The Council has actioned the recommendations in relation to the findings.

VfM arrangements: Improving economy, efficiency and effectiveness (continued)

Commentary

The Council holds funds on behalf of a number of other organisations, most significantly the Thames Valley Local Enterprise Partnership (recognising a liability for amounts due to them). The Council has used cash received on their behalf to fund Council capital expenditure rather than borrowing from other sources such as the Public Works Loan Board. As noted on page 15, the Council has restated its financial statements to more clearly present these relationships in the financial statements.

We have recommended the Council put in place documented agreements with the other organisations setting out arrangements over funds held on their behalf, and ensuring appropriate governance that reflects individual arrangements (see Insight 1 on page 32). We have not identified a risk of significant weakness in respect of this, as amounts due to other parties have been correctly recorded in the underlying financial records, and there are not specific requirements for how such funds should be managed.

Purpose of our report and responsibility statement

What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that brings together all of our work over the year, including our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Council's arrangements.

What we don't report

Our audit was not designed to identify all matters that may be relevant to the Audit & Governance Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

The scope of our work

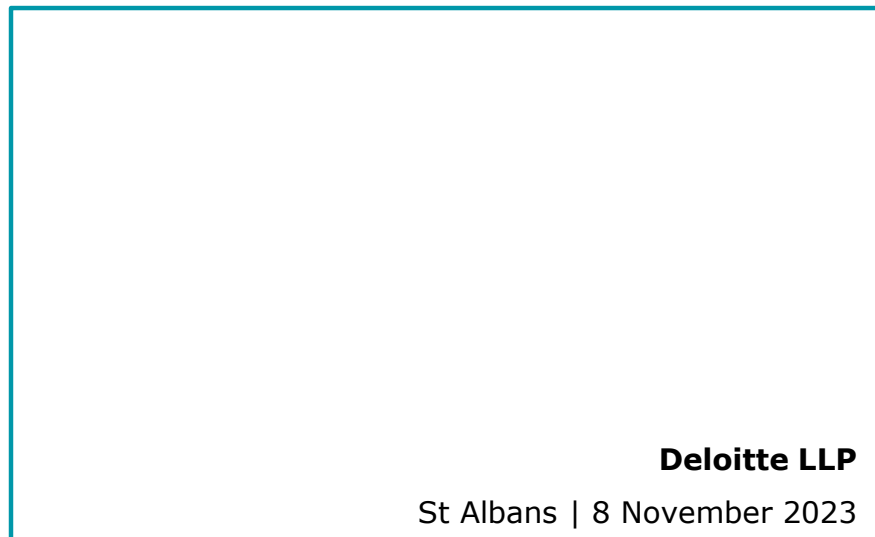
Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plans for the Council and the Pension Fund.

We have reported our final findings to the Audit & Governance Committee on the 16 November 2023 for both the Council and its Pension Fund.

Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility, or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



Deloitte LLP

St Albans | 8 November 2023

Appendix 1: Insights

Insight one:

Documentation of arrangements about funds held on behalf of other entities

The Council holds funds on behalf of a number of other organisations, most significantly the Thames Valley Local Enterprise Partnership. In 2020/21, the Council used cash to fund Council capital expenditure rather than borrowing from other sources (while recognising amounts due to other entities as borrowings in the financial statements).

We recommend the Council puts in place documented agreements with the other organisations setting out arrangements over funds held on their behalf, and ensuring appropriate governance that reflects individual arrangements.

Observation – See page 14

Insight two:

Monthly management accounts process

The Council's management accounts process and monthly monitoring is focussed on net outturn (rather than review of income and expenditure values against budget, or of the balance sheet and cashflow movements in the period). Although this approach is common in local government, this means that the review processes are less able to detect fraud or error, and we do not consider this to be in line with best practice.

We recommend management consider implementing a full monthly management account process, with review against budget for income and expenditure by type, and review of the balance sheet position. This may require consideration of which accruals processes are appropriate to operate each month (or quarter), and which are appropriate as annual processes.

Observation – See page 24

Appendix 1: Insights (continued)

Insight three:

Accounts inspection process

In relation to public inspection period for 2020/21 accounts, the Council did not fully comply with the Local Audit and Accountability Act 2014 (Regulation 15) as it did not include its Annual Governance Statement (AGS) within the draft financial statements when uploading the document on its website – the Annual Governance Statement was separately published in committee papers.

We recommend that Council ensures the AGS is included within the draft financial statements when it is made available for public inspection on the website.

We also note that, although the Council is only required to publish notice of the inspection period on its website, the Council may wish to consider whether other notice mechanisms could improve accessibility for members of the public who may not have internet access.

Observation – See page 23

Insight four:

Quantification of financial sustainability risks

The Council's financial planning process includes identification of risks to the financial plan. Where risks have been identified by the Council in relation to financial sustainability, these have not been quantified. We recommend that management consider whether the extent of quantification and sensitivity analysis used in financial planning and approval, to support consideration of their potential impact on the medium/long term financial sustainability of the Council.

Observation – See page 19

Appendix 1: Insights (continued)

Insight five:

Longer term financial planning

The Council's consideration of its financial commitments and of the interaction of capital expenditure, borrowing, and proceeds from property disposals, requires consideration of transactions which go beyond the term of the MTFS.

We recommend that the Council documents at least high-level longer-term planning assumptions and interactions, to ensure longer term commitments and risks are fully understood and considered by members.

Observation – See page 19

Appendix 2: Council's responsibilities

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency, and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer, as Section 151 Officer of the Council, is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting.

In preparing the Statement of Accounts the Chief Financial Officer is required to select suitable accounting policies and make judgements and estimates that are reasonable and prudent. The Chief Financial Officer is required to confirm that the Statement of Accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for Council Tax payers, regulators and stakeholders to assess the Council's performance, business model and strategy.

The Chief Financial Officer is required to comply with the CIPFA Code of Practice and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. In applying the going concern basis of accounting, the Chief Financial Officer has applied the 'continuing provision of services' approach set out in the CIPFA code of practice as it is anticipated that the services the Council provides will continue into the future.

The Chief Financial Officer and Council are responsible for putting in place proper arrangements to secure economy, efficiency, and effectiveness in the use of the Council's resources, for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance, for safeguarding the assets of the Council, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Appendix 3: Auditor's responsibilities

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditor's responsibilities relating to the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under the Code of Audit Practice and the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General in April 2021, as to whether the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Council a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021. Other findings from our work, including our commentary on the Council's arrangements, are reported in our Auditor's Annual Report.

Auditor's other responsibilities

We are also required to report to you if we exercise any of our additional reporting powers under the Local Audit and Accountability Act 2014 to:

- make a written recommendation to the Council, copied to the Secretary of State;
- make a referral to the Secretary of State if we believe that the Council or an officer of the Council is:
 - about to make, or has made, a decision which involves or would involve the Council incurring unlawful expenditure; or
 - about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency; and
- consider whether to issue a report in the public interest.



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