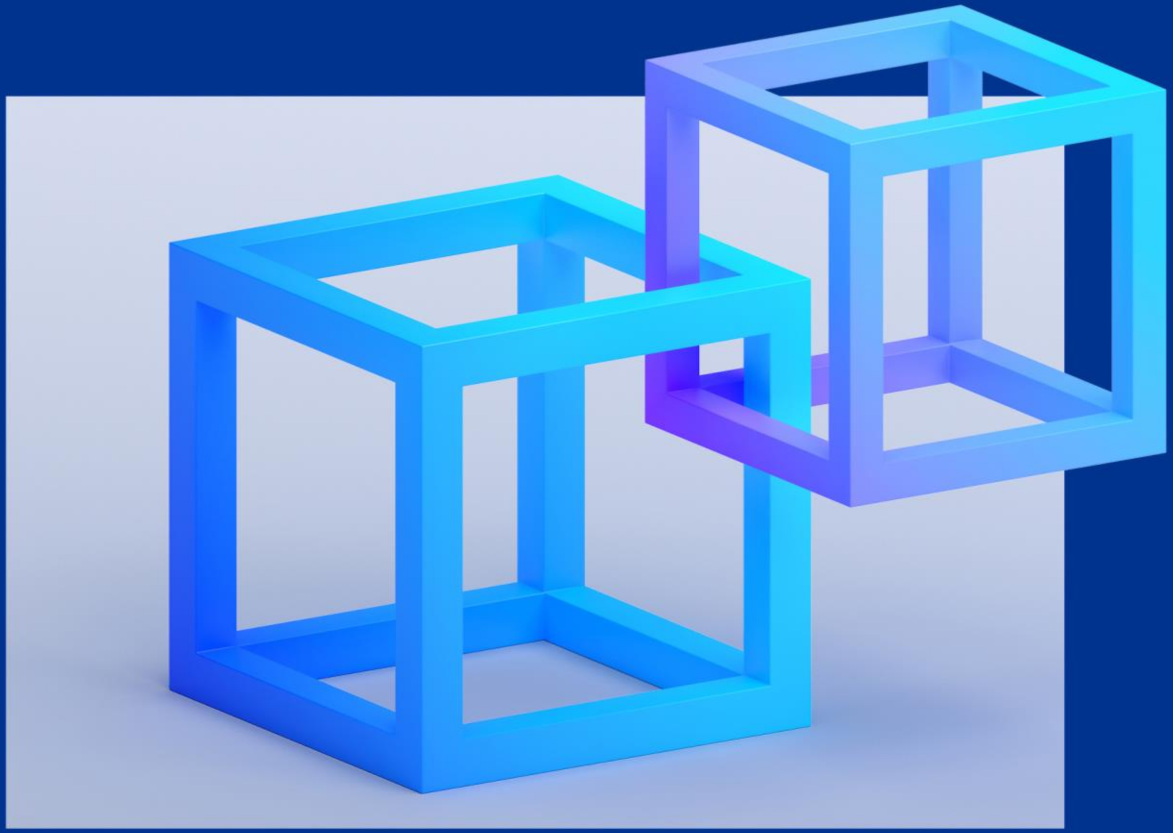
West Berkshire Council

Year End Report to the Governance Committee



Year end report for the year ended 31 March 2025

—

27 January 2026

KPMG required communications for all entities

Introduction

To the Governance Committee of West Berkshire Council

We are pleased to have the opportunity to meet with you on 27 January 2026 to discuss the findings and key issues arising from our audit of the financial statements of West Berkshire Council **(the 'Council')**, as at and for the year ended 31 March 2025.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 29 April 2025. We will be pleased to elaborate on the matters covered in this report when we meet.

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management; and,
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jonathan (jonathan.brown@kpmg.co.uk),the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with the response, please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Tim Cutler. (tim.culter@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access KPMG's complaints process here: Complaints

The engagement team

Subject to the approval of the statement of accounts, we expect to be in a position to sign our audit report on the approval of those statement of accounts and auditor's representation letter by the backstop date of 27 February 2026, provided that the outstanding matters noted on page 7 of this report are satisfactorily resolved.

There have been no significant changes to our audit plan and strategy.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Status of our audit and the implications of the statutory backstop.

Yours sincerely,

Jonathan Brown

Jonathan Brown

27 January 2026

Contents **Page**

Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of West Berkshire Council (the 'Council') for the year ended 31 March 2025.

This Report has been prepared for the Council's Governance Committee, a sub- of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication on 29 April 2025.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Council's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit (to the extent it has been possible in the context of our expected disclaimer of opinion - see page 4).

Status of our audit and the implications of the statutory backstop

Page 4 'The statutory backstop and rebuilding assurance' explains the impact of the statutory backstop and our resulting conclusion to issue a disclaimer opinion on the financial statements

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified findings as reported in our report.

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 7 'Our Audit Findings' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

The statutory backstop and rebuilding assurance

Background

The Government has introduced measures to resolve the legacy local government financial reporting and audit backlog.

Last year, amendments were made to the Accounts and Audit Regulations and NAO's Code of Audit Practice which introduced the requirement for audit reports in respect of any open, incomplete audits up to the period ending 31 March 2023 to be published by 13 December 2024. It also introduced a statutory back stop date of 28 February 2025 for the 2023/24 audit. For West Berkshire Council this had the impact of disclaimer of opinion issued by your predecessor auditor for two financial years up to and including 2022/23. We then issued a disclaimer of opinion for 2023/24 on 28 February 2025 to comply with the statutory backstop date for the reasons set out in our Basis of Disclaimer Opinion below.

Work has been ongoing in the sector to develop guidance to help support appropriate audit procedures for audits where further work is required to build back assurance. In addition to Local Audit Rest and Recovery Implementation Guidance (LARRIGs) that were published in 2024 by the NAO, further guidance has now been published by the NAO (LARRIG 06 - Special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions (e.g reserves balances where a disclaimer has been previously issued)). We note the LARRIGs are prepared and published with the endorsement of the Financial Reporting Council (FRC) and are intended to support the reset and recovery of local audit in England.

The 2023/24 audit

In our *Basis of Disclaimer Opinion* section of our audit report in 2023/24 we reported*:*

The Accounts and Audit (Amendment) Regulations 2024 (the "Amendment Regulations") require the Council to publish its financial statements and our opinion thereon for the year ended 31 March 2024 by 28 February 2025 (the "Backstop Date").

We have been unable to obtain sufficient appropriate audit evidence over a number of areas of the financial statements as we have been unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. These areas include, but were not limited to, investment properties, short-term debtors, short-term other creditors, revenue and capital grant receipts in advance, income from capital grants and contributions, employee benefit expenses and the balance of, and movements in usable and unusable reserves for the year ended 31 March 2024.

In addition, we have been unable to obtain sufficient appropriate evidence over the disclosed comparative figures for the year ended 31 March 2023 due to the Backstop Date. Therefore, we were unable to determine whether any adjustments were necessary to the opening balances as at 1 April 2023 or whether there were any consequential effects on the Council's income and expenditure for the year ended 31 March 2024.

Any adjustments from the above matters would have a consequential effect on the Council's net assets and the split between usable reserves and unusable reserves as at 31 March 2024 and 31 March 2023, the Collection Fund and on its income and expenditure and cash flows for the years then ended.

The 2024/25 audit

On page 6, we set out what work we have been able and not been able to complete in respect of the 2024/25 financial statements as being able to audit the closing balance sheet is an essential element of rebuilding assurance.

We are yet to start our rebuilding assurance risk assessment. We plan to complete this risk assessment within the first part of 2026. Once this is complete, we will report separately the findings. The reason we have not started our rebuilding assurance risk assessment is because of the:

- impending backstop date;
- staff constraints and prioritisation of the 2024/25 audit;
- as noted on page 6 we have not been able to complete the work on balances related to 2024/25.

DRAFT

The statutory backstop and rebuilding assurance

Impact on our audit report on the financial statements

Given our work to rebuild assurance is not complete and due to the statutory backstop date of 27 February 2026, we have determined that there is insufficient time to obtain sufficient appropriate audit evidence over the split of useable and unusable reserves as at 31 March 2025 or 31 March 2024 ahead of the backstop, and, in our view, this is pervasive to the Council's financial position as at 31 March 2025.

Further to this there are a number of areas of the financial statements where we have determined we will be unable to obtain sufficient appropriate audit evidence, as we will be unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. These are detailed on page 6.
As a result of the pervasiveness of the above, we intend to issue a disclaimer of opinion on the financial statements as a whole

Other matters

As required by the ISAs (UK) when we are disclaiming our audit opinion on the financial statements as a whole, our audit report will not report on other matters that we would usually report on, most notably the use of the going concern assumption in the preparation of the financial statements; the extent to which our audit was considered capable of detecting irregularities, including fraud; and whether there are material misstatements in the other information presented within the Statement of Accounts.

Although we are disclaiming our audit opinion we have, in this report, reported matters that have come to our attention and, where appropriate, we intend to include in our audit report.

Value for Money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Council's Value for Money arrangements, specifically we are responsible for reporting if we have identified any significant weaknesses in the arrangements that have been made by the Council to secure economy, efficiency and effectiveness in its use of resources. We also provide a summary of our findings in the commentary in this report.

Page 26 provides a summary of our findings. Further details are also available in our Auditor's Annual Report for 2024/25.

DRAFT

The statutory backstop and rebuilding assurance

Work completed in 2024/25

Our audit plan, presented to you on 29 April 2025 set out our audit approach including our significant risks and other audit risks. We have updated our response to those significant risks in the pages overleaf, identifying the work we have and have not been able to complete.

Although we will be issuing a disclaimer of opinion, we have reported matters that have come to our attention during the audit and, where appropriate, we intend to include in our audit report. Our audit is not yet complete. We set our below the current status of our work. We will provide an oral update on the status at the meeting of the governance committee. Our conclusions will be discussed with you before our audit report is signed.

We note that those areas that we were not able to complete for the 23/24 audit namely payroll, investment property and the collection fund have been completed for the 24/25 audit with no issues arising.

Specifically in relation to 2024/25 we have completed our work on the following areas in addition to our planning and risk assessment work:

Significant risks

At the time of writing, we anticipate finalising our work over our significant risk areas, subject to outstanding final queries being provided by management. Our findings are set out on pages 9 to 21.

Other areas

At the time of writing, we anticipate finalising our work over all other audit areas, apart from those listed below, subject to outstanding final queries being provided by management – see page 7.

We have been unable to complete our work on the following areas:

- Split of usable and unusable reserves for the year ended 31 March 2025;
- The disclosed comparative figures for the Council's income and expenditure for the year ended 31 March 2024, and the comparative figures in the balance sheet as at 31 March 2024 as disclosed in the 'Basis of Disclaimer Opinion' section of our 2023/24 audit report (see page 4).

Our audit findings

Significant audit risks	Page 8- 17
Significant audit risks	**Our findings**
Valuation of land and buildings	We completed our planned procedures and we did not identify any material misstatements relating to this area.
Valuation of investment property	We completed our planned procedures and we did not identify any material misstatements relating to this area.
Management override of controls	Our work remains ongoing
Valuation of post retirement benefit obligations	We assessed the underlying assumptions as balanced and within our reasonable range.
Fraud risk from expenditure recognition	We completed our planned procedures and we did not identify any material misstatements relating to this area

Number of Control deficiencies	Page 39-44
Significant control deficiencies	1
Other control deficiencies	5
Prior year control deficiencies remediated	4

Outstanding matters

There are a number of outstanding matters we need to allow us to sign our audit report, including

- Management representation letter
- Finalise audit report and sign
- Journals testing in relation to management override of controls
- Pensions disclosures
- Collection fund

DRAFT

Audit risks and our audit approach

1 Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value

Cautious | Neutral | Optimistic

Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle, which has resulted in 20-25% of all operational assets revalued in the current year.

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.

A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the valuer.

The value of the Council's land and buildings at 31 March 2025 was £348.4m, of which £46.7m was subject to valuation in year.

Our response

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We critically assessed the independence, objectivity and expertise of the Council's valuers used in developing the valuation of the Council's properties at 31 March 2025;
- We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement;
- We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the CIPFA Code; and
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Key:
Prior year   Current year

Audit risks and our audit approach (cont.)

1 Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value

Cautious | Neutral | Optimistic

Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle, which has resulted in 20-25% of all operational assets revalued in the current year.

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.

A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the valuer.

The value of the Council's land and buildings at 31 March 2025 was £348.4m, of which £46.7m was subject to valuation in year.

Our findings

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings:

- Our testing did not identify any issues with independence, objectivity and expertise of Wilks Head & Eve LLP, the valuers used in developing the valuation of the land and buildings at 31 March 2025. We did not identify any issues in respect of the instructions provided to the valuation specialist by the Council.
- Our procedures over the assumptions used in the valuation were reasonable. The valuation is within the acceptable range suggested by our valuation specialists however is considered optimistic. As the valuation is within our acceptable range we do not propose an amendment to the financial statements.
- We have considered the methods used in undertaking the existing use value and depreciated replacement cost valuation and the methods were identified as acceptable..
- Our procedures to agree the impairment entries and the associated disclosures are complete. We have no issues to report as a result of this work.

Key:
Prior year Current year

DRAFT

Audit risks and our audit approach (cont.)

2 Valuation of investment property

The carrying amount of revalued investment property differs materially from the fair value

Cautious | Neutral | Optimistic

Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. The Council has a £51.8 million portfolio, primarily consisting of industrial estates/business parks.

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

Our response

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We critically assessed the independence, objectivity and expertise of the Council's valuers used in developing the valuation of the Council's investment property at 31 March 2025;
- We inspected the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We challenged the appropriateness of the valuation; including any material movements from the previous revaluations. We challenge key assumptions within the valuation as part of our judgement;
- We agreed the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code; and
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Key:
Prior year Current year

Audit risks and our audit approach (cont.)

2 Valuation of investment property

The carrying amount of revalued investment property differs materially from the fair value

Cautious Neutral Optimistic

Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. The Council has a £51.8 million portfolio, primarily consisting of industrial estates/business parks.

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

Our findings

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings:

- Our testing did not identify any issues with independence, objectivity and expertise of Wilks Head & Eve LLP, the valuers used in developing the valuation of the investment properties at 31 March 2025. We did not identify any issues in respect of the instructions provided to the valuation specialist by the Council. You will remember that we were unable to complete our testing on investment property last year in advance of the backstop deadline but have completed the work in full for our audit of the year ended 31 March 2025.
- Our procedures over the assumptions used in the valuation were reasonable. The valuation is within the acceptable range suggested by our valuation specialists however is considered optimistic. As the valuation is within our acceptable range we do not propose an amendment to the financial statements.
- We have considered the methods used in undertaking the existing use value and the method was identified as acceptable.
- Our procedures to agree the impairment entries and the associated disclosures are complete. We have no issues to report as a result of this work.

Key:
Prior year Current year

Audit risks and our audit approach (cont.)

3 Management override of controls [a]

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our response

Our audit methodology incorporates the risk of management override as a default significant risk.

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias;
- Evaluated the selection and application of accounting policies;
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments;
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the Council’s normal course of business, or are otherwise unusual;
- In line with our audit plan, tested the operating effectiveness of controls over journal entries and post closing adjustments;
- We analysed all journals through the year using data and analytics and focus our testing on those with a higher risk.

Audit risks and our audit approach (cont.)

3 Management override of controls [a]

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our findings

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings:

- We have raised an overall deficiency regarding review and approval of transactions, which included the lack of evidence for approval of journals initially posted as unbalanced journals.
- Ideally unbalanced journals would not be possible in the financial system, but as the compensatory suspense account exists, it is recommended that evidence be retained of review of these journals that fall outside of the standard system.
- We identified 56 journals that met our high risk criteria. Management are currently working through the sample of journal entries & we will provide a further update if required.

Audit risks and our audit approach (cont.)

4 Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation

Cautious Neutral Optimistic

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that the post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surpluses and minimum funding are complicated and requires actuarial involvement.

Key:
Prior year Current year

Our response

We have performed the following procedures :

- Understood the processes the Council have in place to set the assumptions used in the valuation;
- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirmed that the accounting treatment and entries applied by the Council are in line with IFRS and the CIPFA Code of Practice; and
- Considered the adequacy of the Council's disclosures in respect of the sensitivity to these assumptions; and
- Assessed the IFRIC 14 calculation and application for the asset ceiling and minimum funding requirements.

Audit risks and our audit approach (cont.)

4 Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation

Cautious Neutral Optimistic

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that the post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surpluses and minimum funding are complicated and requires actuarial involvement.

Key:
Prior year Current year

Our findings

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings:

- We concluded that controls in place to review the valuation were ineffective. Auditing standards requires controls to be designed with a certain level of recurrency and precision which is not part of management's process.
- We have assessed the overall assumptions used by management as balanced relative to our central rates and within our reasonable range. All individual assumptions were assessed as balanced and within our reasonable range except for CPI inflation which is assessed as cautious but with our reasonable range.
- We have confirmed that the Fund's appointed actuaries, both individual and firm, hold appropriate professional qualifications, being Fellows of the Institute of Actuaries, and are therefore qualified to perform actuarial valuations and prepare IAS19 disclosure reports.
- We have assessed IFRIC 14 calculation and management's assessment that minimum funding should be recognised on the balance sheet. We are satisfied with the net liability reported.
- We have recommended the Council to update the narrative disclosure on Virgin media case based on new developments
- Management are currently working through our disclosure recommendations & we will provide a further update if required.
- We have summarised our views over the key accounting estimates and management judgments in relation to the post retirement benefit obligations at page 22.

Audit risks and our audit approach (cont.)

5 Fraud risk from expenditure recognition

Liabilities and related expenses for purchases of goods or services are not recorded in the correct accounting period

Significant audit risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

The Council has a statutory duty to balance their annual budget. Where a Council does not meet its budget this creates pressure on the Council's usable reserves and this in term provides a pressure on the following year's budget. This is not a desirable outcome for management.

We consider this would be most likely to occur through understating accruals, for example to push back expenditure to 2025-26 to mitigate financial pressures.

Our response

We have performed the following procedures in order to respond to the significant risk identified:

- We evaluated the design and implementation of controls for developing manual expenditure accruals at the end of the year to verify that they have been completely and accurately recorded;
- We inspected a sample of invoices of expenditure, in the period around 31 March 2025, to determine whether expenditure has been recognised in the correct accounting period and whether accruals are complete;
- We selected a sample of year end accruals and inspected evidence of the actual amount paid after year end in order to assess whether the accruals have been accurately recorded;
- We inspected journals posted as part of the year end close procedures that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; and
- We performed a retrospective review of prior year accruals in order to assess the completeness with which accruals had been recorded at 31 March 2024 and considered the impact on our assessment of the accruals at 31 March 2025. We also compared the items that were accrued at 31 March 2024 to those accrued at 31 March 2025 in order to assess whether any items of expenditure not accrued for as at 31 March 2025 have been done so appropriately.

DRAFT

Audit risks and our audit approach (cont.)

5 Fraud risk from expenditure recognition

Liabilities and related expenses for purchases of goods or services are not recorded in the correct accounting period

Significant audit risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

The Council has a statutory duty to balance their annual budget. Where a Council does not meet its budget this creates pressure on the Council's usable reserves and this in term provides a pressure on the following year's budget. This is not a desirable outcome for management.

We consider this would be most likely to occur through understating accruals, for example to push back expenditure to 2025-26 to mitigate financial pressures.

Our findings

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings:

- Our work in this area has been fully concluded and we have not identified any manipulation over the accruals recorded within the period.
- Consequently, we consider that non-pay expenditure was not materially misstated.

DRAFT

Audit risks and our audit approach (cont.)

6 Adoption of IFRS 16

An inappropriate amount is estimated and recorded for lease liabilities and right of use assets

Other audit risk

- The Council has adopted IFRS 16 as per CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (2024/25) with an implementation date of 1 April 2024.

We anticipate the following challenges in the first year of implementation.

- Completeness of lease listing used in transition computations.
- Inadequate lease disclosures as per IFRS 16.
- Inaccurate computation of lease liabilities and right of use assets.
- Training needs for new/existing staff

Our response

We performed the following procedures in order to respond to the other audit risk identified:

- Obtained the full listings of leases and reconciled to the general ledger;
- Reviewed a sample of the lease agreements to determine the terms of the leases and confirmed correct classification;
- Reviewed the appropriateness of the discount rate used in the lease computations;
- Reviewed the transition adjustments passed by the Council; and
- Reviewed the disclosures made on the financial statements against requirements of IFRS16.

Our findings

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings:

- Our work in this area has been fully concluded and we have not identified any material errors in the adoption of IFRS 16.

DRAFT

Audit risks and our audit approach (cont.)

7 Non-capital expenditure is inappropriately recognised as capital expenditure

Other audit risk

Although we have rebutted the presumed significant risk in relation to fraudulent expenditure recognition, capital accounting requirements are complex and may contain an element of judgement in determining which costs in a project can be capitalised and which need to be expensed.

Given the size of the Council’s capital programme (£59.2 million estimated 24/25), we have identified an Other Audit Risk regarding revenue expenditure being inappropriately recognised as capital expenditure.

Our response

We performed the following procedures in order to respond to the other audit risk identified:

- Evaluated the design and implementation of controls for classifying expenditure as capital;
- Scanned the list of capital programme for schemes which could indicate an increased risk that the spend may be revenue in nature; and
- Tested a sample of capital expenditure incurred by the Council to ensure it is correctly capitalised.

Our findings

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings:

- Our work in this area has been fully concluded and we have not identified any capital expenditure that was inappropriately recognised within the period.

Audit risks and our audit approach (cont.)

8 Introduction of a new payroll system

Other audit risk

The Council has introduced a new payroll system from 1 April 2024, therefore will have been in use for the full financial year.

There is a risk that new systems and processes could allow an elevated opportunity for fraud or error.

Internal audit also raised a number of issues with recommendations in relation to the new payroll system and we have taken note of their findings.

Our response

We performed the following procedures in order to respond to the other audit risk identified:

- Evaluated the design and implementation of controls for completing the payrun;
- Tested the operational effectiveness of these controls through a sample of starters and leavers;
- Reconciled the payrun to the general ledger and the payroll system to ensure accuracy; and
- Performed analytical procedures over the annual payroll number disclosed in the accounts, including reviewing pay increases and total headcount.

We also liaised with our IT audit specialists in advance of the final audit to confirm if any further procedures are required over the system change itself.

Our findings

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings:

- Our work in this area has been fully concluded and we have not identified any issues within the payroll system which impacts the employee expenses total.
- You will remember that due to the introduction of this new system, we had challenges obtaining audit evidence from the old system on a timely basis for our audit last year and therefore were unable to complete our payroll work in the prior year audit. It is therefore good to see that our testing on the new system has not led to any issues.

Key accounting estimates and management judgements– Overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Cautious Neutral Optimistic

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
	Cautious / Neutral / Optimistic			Needs improvement / Neutral / Best practice	
Land and Buildings Revaluation		360.3	(22.6)		We have assessed the land and buildings valuation as neutral and within our reasonable range.
Investment Property Revaluation		51.8	(1.9)		We have assessed the investment properties valuation as within our reasonable range, towards the optimistic end.

Key:
Prior year Current year

DRAFT

Key accounting estimates and management judgements– Overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Cautious | Neutral | Optimistic

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
LGPS gross DBA Fair value of plan assets	Cautious / Neutral / Optimistic: Neutral	405.0	8.8	Needs improvement / Neutral / Best practice: Neutral	We have assessed the asset returns adopted by the Fund and the consistency of asset allocation and share of scheme assets year on year. The fair value was found to be neutral and within our acceptable range.
LGPS gross DBO Present value of obligations	Neutral	443.0	(60.6)	Neutral	Our actuarial specialists have assessed the overall assumptions used by management in valuing the pension liabilities. No issues were noted in the judgements made in the valuation of pension liabilities. The present value was found to be neutral and within our acceptable range (see next page).
LGPS IFRIC 14 Impact of asset & minimum funding on net position	Neutral	30.3	30.3	Neutral	Our actuarial specialists have assessed the IFRIC 14 calculation and management's view that minimum funding should be recognised at the year end. The IFRIC 14 assessment was found to be neutral and within our acceptable range.

Key:
Prior year
Current year

Key accounting estimates

Present value of defined benefit obligations

Level of prudence compared to KPMG central assumptions

Audit misstatement | *Cautious* | *Balanced* | *Optimistic* | *Audit misstatement*

Reasonable range

Overall assessment of assumptions for audit consideration						*Balanced*	
Underlying assessment of individual assumptions	**Methodology**	**Consistent methodology to prior year?**	**Compliant methodology with accounting standard?**	**Employer**	**KPMG**	**Assessment**	**Key assumptions**
Discount rate	AA yield curve	✓	✓	5.85%	5.75%		✓
CPI inflation	Deduction to inflation curve	✓	✓	2.90%	2.74%		✓
Pension increases	In line with CPI	✓	✓	2.90%	2.96%		
Salary increases	Employer best estimate	✓	✓	CPI plus 1%	In line with long-term remuneration policy		
Mortality – Base tables	In line with most recent Fund valuation	✓	✓	110%/105% (Males/Females) of the SAPS Series 3 tables	In line with best-estimate Fund experience		✓
Mortality – Future improvements	In line with most recent Fund valuation, updated to use latest CMI model	✓	✓	CMI 2023 projections model, 1.25% long-term trend rate and default other parameters	CMI 2023,1.25% long-term trend rate and default other parameters		✓
Other demographics	In line with most recent Fund valuation	✓	✓	50% of the maximum available tax-free cash on retirement	In line with Fund experience		

Other matters

Narrative report

As Governance Committee members you confirm that you consider that the Narrative Report, and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council's performance, model and strategy.

Our responsibility is to read the other information, which comprises the information included in the Statement of Accounts other than the financial statements and our auditor's report thereon and, in doing so, consider whether, based on our financial statements audit work, the other information is materially misstated or inconsistent with the financial statements or our audit knowledge.

Due to the significance of the matters leading to our disclaimer of opinion, and the possible consequential effect on the related disclosures in the other information, whilst in our opinion the other information included in the Statement of Accounts is consistent with the financial statements, we are unable to determine whether there are material misstatements in the other information.

Whole of Government Accounts

As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack.

We are yet to receive instructions from NAO regarding WGA.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

We have set out audit fees, as set by PSAA and fee variations on page 34.

We have not completed any non-audit work at the Council during the year.

Value for money

Value for Money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities we include a statement within our audit report on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We have prepared our Auditor's Annual Report and a copy of the report is included within the papers for the Committee alongside this report.

Response to risks of significant weaknesses in arrangements to secure value for money

As noted on the right, we have identified two risks of a significant weakness in the Council's arrangements to secure value for money. Within our Auditor's Annual Report we have set out our response to those risks.

Within our Auditor's Annual Report we have set out recommendations in response to those significant risks.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	Two significant risks identified	Significant weaknesses identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

Further detail is set out in our Auditor's Annual Report.

Performance improvement observations

As part of our work we have identified 6 Performance Improvement Observations, which are suggestions for improvement but not responses to identified significant weaknesses – see page 39.

DRAFT

Significant Value for Money Risk

1 Financial resilience

Risk that value for money arrangements may contain a significant weakness linked to financial sustainability.

Significant Value for Money Risk

Financial stress on the Council relies on tight budgetary constraints and limited scope for further significant overspend.

Our response

We will perform the following procedures:

1. Consider the Council's arrangements and structures to monitor and deliver a balanced budget;
2. Understand the process for identifying savings and other available levers to the Council if any;
3. Review recent budget monitoring and performance throughout the period and to date; and
4. Conduct interviews with senior management to understand the continuing financial stability of the Council.

Our findings

Findings

Similarly to 2023/24, the Council has a high reliance on council tax, which it historically increased by less than the maximum amount in previous years. Coupled with lower reserves to rely on, largely national pressures have hit the Council quicker than some others and have overwhelmed the Council's saving plans.

It is only the receipt of Exceptional Financial Support (EFS) which averted the need to issue a s114 Notice in year.

Additional review confirms that many of the core pressures on the Council's budget are familiar to all unitary Councils in the national context. It also suggests that current savings and transformation plans may be insufficient in the short term.

Although the plans in place are showing results in individual directorates in the specific areas they are targeted, we continue to recommend that it requires a more ambitious strategy. This view was confirmed by the recent Financial Resilience review, undertaken by CIPFA in November 2025.

Findings cont.

Individual directorates are highlighted as areas with overspend, but the Council should act more centrally.

Experience with other organisations in a similar context suggests that a further centralised approach to savings could be helpful, whereby overspend is reviewed and mitigated more holistically at a Council-level on a frequent basis. This could be resolved through an additional Board or equivalent meeting, with authority to pull levers quickly, centrally and cross-directorate to mitigate overspend.

This would require organisational buy-in to understand the tough choices that may be required to balance to the budget despite increasing pressures.

Conclusion

Based on the findings above we have determined that there remains a significant weakness in arrangements relating to financial sustainability.

DRAFT

Significant Value for Money Risk

2 Dedicated Schools Grant deficit

Risk that value for money arrangements may contain a significant weakness linked to financial sustainability

Significant Value for Money Risk

The scale of the DSG deficit may not have been appropriately recognised

Our response

We will perform the following procedures:

1. Consider the Council's plans in place to mitigate the increasing cost;
2. Consider the Council's position relative to other unitary authorities; and
3. Review future expected deficit and the impact on the Council.

Our findings

Findings

In 2024/25, there was an overspend of £6.68 million on the Dedicated Schools Grant (DSG). Discussions with the Authority identified that there is not currently a robust deficit recovery plan in place for DSG, including the identification of future expected deficits and the impact on the Council.

Conclusion

Based on the findings above we have determined that there is a significant weakness in arrangements relating to financial sustainability.

DRAFT

Value for Money: Recommendations

The recommendations raised as a result of our work in respect of significant value for money weaknesses in the current year are as follows:

#	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	**Issue** There is not a robust deficit recovery plan in place for the Dedicated Schools Grant (DSG) deficit. While this is a national issue, there needs to be a collective responsibility for returning to a sustainable position. **Impact** The lack of robust plan could result in larger than expected future deficits where the scale of the DSG deficit may not have been appropriately recognised. This may then have a knock on impact on the reserves and further reduce the Council's financial position. **Recommendation** The Council should implement a robust deficit recovery plan for DSG which includes the identification of future expected deficits and the impact on the Council.	Management acknowledges that the DSG deficit will continue to increase. A key driver is a shortfall in High Needs Block (HNB) funding. The DSG deficit is discussed at the Heads Funding and Schools Forum on a regular basis and strategies for deficit reduction are considered within both forums. Toby Bradley (Service Lead – Financial Management) Due date – 30 April 2026

DRAFT

Value for Money: Recommendations

Below we have set out our findings from following up recommendations raised in respect of significant weaknesses identified in prior periods:

#	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Update as of January 2026
1	**Issue** The Council's reserves position is critically low for maintenance of seamless on-going services **Impact** The Council is increasingly vulnerable to overspends in services and may need to request additional funding via an exceptional financial support request to avoid a future section 114 scenario. **Recommendation** The Council should be bolder and more urgent in their Transformation programme with powers and levers to challenge and mitigate overspends on a Council-wide, cross-directorate basis This could be supported by a focused, centralised, regular 'emergency spend control' forum, with powers and levers to challenge and mitigate overspends on a Council-wide, cross-directorate basis.	The Council has had a spend control panel established since July 2023 - the Financial Review Panel (FRP). This initially reviewed all expenditure over £1,000. Those limits have subsequently been increased, but the FRP continues to meet weekly to review and approve agency and recruitment activity. The Council is moving into the second phase of the Transformation Programme, using external assurance to highlight greater levels of savings that can be delivered to support the budget position. In January 2025, the Council submitted a request to secure additional support of £16m within Central Government's Exceptional Financial Support framework. Of the total requested, £13m is intended to be utilised in the 2024/25 financial year, with £3m to be applied during 2025/26. The primary requirement for this request is the Council's need to replenish usable reserves. This request was approved in February 2025.	**KPMG** KPMG are still assessing the impact of the Transformation Programme in the current phase and will seek a response from management should the issue remain open in the finalised report.

DRAFT

Value for Money: Recommendations

#	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Update as of January 2026
2	**Issue** Significant weakness in arrangements for financial sustainability **Impact** The Council has some of the lowest reserves and highest debt to asset ratios in England. It has debts of £62 million associated with properties that are only worth £51 million. The Council incurred a small overspend in 2022/23 and is forecasting an overspend again in 2023/24, despite spending controls having been adopted. For the next four years, the Council forecasts a £30 million budget gap. **Recommendation** The Council must monitor its financial position and the impact of spending controls closely. As a priority, the Council should consider all possible options, including those that focus on People Directorate contract spend but also other areas of the revenue account where efficiencies may be possible. Options under current discussion include disinvestment from capital assets with negative equity values. It will be important that any exit strategy adopted by the Council is supported by professional advice, reviewed regularly, and is subject to appropriate scrutiny and challenge.	The Council continues to monitor spending closely with high levels of control and has a Transformation programme in place to help seek out further efficiencies. The Financial Review Panel remains in place through into the 2024-25 financial year. Any property disposals from Commercial Property come to the Executive for approval and are subject to professional external advice. **January 2025** Financial monitoring is established as a quarterly routine. The Council's Executive Board continues to formally approve all asset disposals within the Commercial Property Portfolio. The Financial Review Panel convenes on a weekly basis to review establishment spend and agency recruitment expenditure.	**KPMG** Issue considered still open as the budget challenges remain.

Appendix

Contents

DRAFT

Required communications

Type		Response
Our draft management representation letter	OK	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2025.
Adjusted audit differences	OK	There were no adjusted audit differences.
Unadjusted audit differences	OK	The aggregated surplus impact of unadjusted audit differences would be nil. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 38.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing on 29 April 2025..
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving Council management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Issue a report in the public interest	OK	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters..
Significant difficulties	OK	No significant difficulties were encountered during the audit.
Modifications to auditor's report	X	Our audit opinion will be disclaimed.
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	No material inconsistencies were identified related to other information in the statement of accounts.
Breaches of independence	OK	No matters to report. The engagement team and the firm have complied with relevant ethical requirements regarding independence.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	OK	The significant matters arising from the audit were discussed, or subject to correspondence, with management.
Certify the audit as complete	X	We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above. We will issue our certificate once we have received confirmation from the National Audit Office that their audit of the Whole of Government Accounts is complete and therefore all our work in respect of the Authority's Whole of Government Accounts consolidation pack is complete.
Whole of government accounts	OK	As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack. We are yet to receive instructions from NAO regarding WGA.

DRAFT

Fees

Audit fee

Our fees for the year ending 31 March 2025 are set out in the table below (note all fees are exclusive of VAT).

Entity	2024/25 (£'000)	*2023/24 (£'000)*
Scale fee as set by PSAA	297	*272*
Amount of scale fee to be charged for the work completed	297	*272*
Standard fee variation approved by PSAA / subject to be PSAA approval *	TBC	*7*
Fee variation subject to be PSAA approval	TBC	*28*
Buildback fee variation approved by PSAA / subject to be PSAA approval	-	-
TOTAL FEE PAYABLE	**297**	*307*

Expected fee variations

Any work completed outside of our PSAA contractual position is flagged as a variation and additional fees are proposed and challenged by the PSAA. We expect to submit fee variations to include the following areas:

- New payroll system work
- IFRS 16 implementation
- Disclaimer of opinion
- VFM significant risk

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- Note some fees are subject to PSSA determination and will therefore be confirmed on that determination

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Governance Committee members

Assessment of our objectivity and independence as auditor of West Berkshire Council

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out on the table overleaf

DRAFT

Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2025 £000	Value of Services Committed but not yet delivered £000
1	Housing benefit grant certification	Management Self review Self interest	• Standard language on non-assumption of management responsibilities is included in our engagement letter. • The engagement contract makes clear that we will not perform any management functions. • The work is performed after the audit is completed and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	-	38*

* Provisional figure based on prior year. Final fee to be agreed with our grants team

DRAFT

Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period.

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.12: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2024/25
	£’000
Scale fee	297
Other Assurance Services	38
Total Fees	**335**

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Governance Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Governance Committee of the Council and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

XX

KPMG LLP

DRAFT

Uncorrected audit misstatements

Given we are disclaiming our audit opinion as described on page 4 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported uncorrected audit misstatements that we have identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Governance Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Governance Committee, details of all adjustments greater than £635k are shown below:

Uncorrected audit misstatements (£'000s)

No.	Detail	CIES Dr/(cr)	Balance Sheet Dr/(cr)	Comments
1	Dr Investment Property	-	697	KPMG identified a formula error within the fair value workbook provided by the valuer for Unit 13M&N (investment property). The total capital value was showing as nil, however it was meant to pull through as £696,970.
	Cr Usable reserves	-	(697)	
Total		**-**	**-**	

DRAFT

Control Deficiencies

Although we are disclaiming our audit opinion we have reported recommendations as a result of our work in the current year are as follows:

Priority rating for recommendations

❶ **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

② **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

③ **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	❶	**Unauthorised approvals of capital grants** From our process understanding completed for the capital grants, a member of the grants team confirmed that they often broke transfers into smaller amounts to bypass the approval required from the head of finance, in order to speed up the approval process. We recommend that training is provided to the capital grants team to ensure that the appropriate procedures and approval process is followed.	The team member referenced within the external auditor's finding is no longer a Council employee. The internal guidance pertaining to this accounting area is that any journal concerning a transactional amount above £50,000 must be approved by senior management prior to processing within Agresso (Unit4). However, at year-end, as most capital grant transfers are above this journal threshold, all funding allocated is reconciled to the Unit4 ledger in summary document form once all journals have been transacted. Shail Vitish (Senior Finance Manager – Capital and Treasury) Due date – 31 March 2026

DRAFT

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	2	**Management review/authorisation over expenditure and accruals** As part of our expenditure testing, we identified 5 transactions that had been authorised outside of Agresso (Unit4) - the accounts payable system. As such the Council were not able to provide evidence to confirm whether the users which authorised the payments outside of the system, had the appropriate approval limits as per the authorisation matrix. We also noted that there was no formal evidence of review of the computations for accrual journals within the system. We recommend that expenditure transactions are approved within the system and that a formal review process is implemented for accrual journals.	For the 2025/26 financial year, Finance will broaden the management reviews of such expenditure and accrual accounting items. All year-end accruals processed will have comprehensive supporting documentation attached within Unit4. All team members processing accruals will be required to review all backing documentation prior to approval in Unit4. The Council's Section 151 Officer will issue a communication to all finance teams regarding this issue. Toby Bradley (Service Lead – Financial Management) Due date – 31 March 2026
3	2	**Investment property rent reviews** As part of our investment properties testing, we identified four rent reviews that were due to be undertaken in previous financial years that remained outstanding in 2024/25. Further to this, there is also no investment property policy/ procedure document in place to ensure that the rent reviews are completed on a timely basis. We recommend that a procedure document is created for the investment properties to ensure that rent reviews are undertaken before their due date.	Where Council properties are externally managed, the appointed third-party agent will monitor all pending rent review dates within the scope of an extended time horizon. Upcoming reviews are subsequently discussed at Council/managing agent meetings and reported quarterly to Property Investment Board (PIB). The Council is currently in the process of updating the property database for all rent review dates assigned to sites that are managed internally. The enhanced database is intended to permit Council officers to more easily identify and handle upcoming rent review dates. Richard Turner (Property Service Manager) Due date – 30 April 2026
4	2	**Management review of actuarial assumptions** The Actuary assumptions are reviewed annually by Governance and Audit committee as part of the 'Closedown Matters' report. However, management do not challenge the assumptions used or review the reasonableness of the calculations performed. We recommend that a formal review of the actuarial assumptions are undertaken by management.	Management appreciates the importance of challenging the actuary's principles and assumptions in relation to the derivation of the year-end pension scheme liability. In respect of the 2024/25 year-end, Finance met in April 2025 to review the first draft of the actuary's report. Selected questions were subsequently returned to the actuary and the Council's payroll section, examples including the scrutiny of member data composition and the salary increase % assumption applied. The Council's position is that a reputable actuary must be procured as the associated accounting area is highly complex, and the engagement of an additional suitably-qualified third party to review the year-end work of the actuary is not deemed to be cost-effective. Shail Vitish (Senior Finance Manager – Capital and Treasury) Due date – 31 May 2026

DRAFT

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
5	3	**Authorisation for payroll BACS** There was no documentation of the payroll BACS authorisation for five months of the 2024/25 financial period. We recommend that review and authorisation of the payroll BACS is carried out monthly and formally documented.	The Payroll and Benefits Manager role was vacant for a period during the year reviewed. All monthly payroll BACS reports are now reviewed by the Payroll and Benefits Manager, with this authority delegated to an appropriate post in the event of absence. Maddy Roberts (Payroll and Benefits Manager) Due date – 28 February 2026
6	3	**Absence of process to verify if equipment is still in use** We observed that management do not perform periodic reviews to confirm whether fully depreciated equipment remains in use. Instead, depreciation is calculated automatically according to policy, indicating the absence of a control activity for asset usage verification. We recommend that periodic reviews are undertaken to confirm whether fully depreciated equipment are still in use by the Council.	For practicality purposes, certain IT equipment is capitalised in bulk rather than by individual asset, a relevant example being the stock of laptops. In respect of this recommendation, management's understanding of the auditor's advice is that the Council should match the asset batch cost capitalised in Unit4 against the physical batch whose useful economic lives have ceased. Management notes that the purchase cost total attached to such assets is insignificant in financial value when compared to other capital items in the fixed asset register, and immaterial when taken against overall asset amounts in the year-end Balance Sheet. Shail Vitish (Senior Finance Manager – Capital and Treasury) Due date – 31 March 2026

DRAFT

Control Deficiencies (cont.)

We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding:
4	4	0

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2026)
1	1	**Lack of evidence for review or approvals in processes** We were unable to evidence review and/or approvals regarding: PPE processes such as revaluation journals, depreciation and the Fixed Asset Register reconciliation review; secondary authorisation of payroll after manual adjustments had been made; and clearance of unbalanced journals in the suspense codes (albeit the total of unbalanced journals is not at all material) We also were unable to evidence that appropriate authorisation was provided for a number of expenditure transactions, whereby approval was 'external to the system'. There is additionally no formal review assessing the appropriateness of accruals. There is a risk that approvals and reviews in these areas are not being adequately performed allowing the opportunity for error or fraud through lack of oversight of transactions. We also noted anecdotal evidence from one of our walkthroughs that larger transactions were being split up in the system in order to accelerate approval, circumventing the current approval policy. We recommend that the Council review its processes and ensure the relevant reviews and approvals can be evidenced. We recommend that the Council issue firmer guidance to all staff members capable of accessing the financial system around appropriate authorisation and undertake a random sample of transactions (perhaps those around the authorisation limit or posting to the same coding) on a semi-regular basis to ensure the guidelines are followed.	The criticality of management ensuring that effective journal authorisation and review controls are embedded within the finance system will be reiterated to individual system users. Management has confidence that a journal review process has been formulated and is in operation for key processes, these including Treasury Management accounting items (whereby only suitably qualified and experienced team members approve postings following the receipt of adequate backing documentation) and PPE journals. However, for selected PPE sample items, a complete suite of authorisation evidence could not be readied for the external auditor. Richard Quayle (Service Lead – Financial Reporting and Property) Due date – 31 March 2025	Management acknowledged this 2023/24 year finding in January 2025, and the implications were borne in mind by the appropriate finance teams in advance of the commencement of the subsequent financial year. Management is satisfied that any relevant observations that remain valid have been itemised as 2024/25 (current year) recommendations in the first half of this Control Deficiencies section.

DRAFT

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2026)
2	2	**Limited access to the legacy payroll system** We understand the Council has limited access to its legacy payroll system, whereby standard reports by individual and/or month are unable to be run without significant backend IT intervention, which hampered the audit progress significantly in this area. There is a risk that lack of historical access will hamper the ability to respond to internal or external fraud review surrounding staff pay. We recommend the Council maintain more effective historical records i.e. building the core payroll reporting that would allow effective internal/external inspection.	Management accepts that the legacy payroll system data presented for external audit review in 2023/24 was not consistent with specific reports made available in past financial years. The Council will ensure that appropriate reports and data downloads are provided for the 2024/25 external audit review. Maddy Roberts (Payroll and Benefits Manager) Due date – 31 March 2025	As a response to last year's assertion by KPMG, payroll management ensured that a detailed query review process was established for the 2024/25 financial year. This permitted the identification and monitoring of open actions, completed actions and the confirmation and revision of individual due dates. This 2023/24 recommendation has not been reissued for 2024/25.
3	2	**Limited management review of property valuation** We were unable to evidence management review or challenge of the assumptions used in the valuer's calculations. We also experienced some difficulty in evidencing the relevant data inputs into the valuer's calculation, which ideally should be readily available from the Council, who provide these to the valuer. We understand this is largely due to the investment property system in place. There is a risk that material errors in the valuation would not be identified, resulting in significant changes to the accounts in future periods and/or properties that no longer exist or are erroneously classified will be revalued. We recommend that management and the relevant internal experts challenge and retain evidence of this challenge as part of the annual valuation process.	In respect of the 2024/25 financial year, the Council will independently scrutinise the asset valuation reports collated by the external property specialist. This review will aid in ensuring the completeness and accuracy of the financial and non-financial data supplied by the specialist. It should be noted that authorisation and review processes were in existence during 2023/24, but management accepts the recommendation to formalise and strengthen such controls. It is acknowledged that the full authorisation evidence requested by the external auditor could not be supplied. Richard Quayle (Service Lead – Financial Reporting and Property) Due date – 31 March 2025	To address this prior year finding, Finance attempted to expand the internal review processes upon receipt of the year-end property valuation reports. In respect of the auditor's verification of title deeds, no repeat occurrences have been noted within the 2024/25 audit.
3a	2	**Title deeds are not regularly checked and reviewed** We obtained the title deed for one of the revalued assets and noted that the asset is not owned by the Council so it should not be shown on the asset register. We recommend that title deeds are reviewed on a cyclical basis to ensure the Council's financial position is accurate.		

KPMG

DRAFT

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2026)
4	3	**Bank reconciliation not being performed correctly** Two of the bank reconciliations reviewed in year showed preparation dated after the review date, which could be an indication that these were not reviewed correctly after preparation. There is a risk that balances available to the Council are recorded incorrectly and could feed inaccurate financial reporting. We recommend that bank reconciliations are performed and reviewed by appropriate members of staff in good time to ensure accurate financial information is available to decision makers.	Management recognises that a key authorisation control is the timely preparation and review of month-end bank account reconciliations and will recommunicate the importance of this principle to the affected teams and individuals within Finance. Richard Quayle (Service Lead – Financial Reporting and Property) Due date – 31 March 2025	Since the finding was issued in January 2025, it has been considered within all subsequent month-end bank reconciliations prepared. No further instances have been identified by the auditor.

FRC's areas of focus

The FRC released their Annual Review of Corporate Reporting 2023/24 ('the Review') in September 2024 having already issued three thematic reviews during the year.

The Review and thematics identify where the FRC believes companies can improve their reporting. These slides give a high level summary of the key topics covered. We encourage management and those charged with governance to read further on those areas which are significant to their entity.

Key expectations for 2024/25 annual reports

Overview

The Review identifies that the quality of reporting across FTSE 350 companies has been maintained this year, but there is a widening gap in standards between FTSE 350 and non-FTSE 350 companies. This is noticeable in the FRC's top two focus areas, 'Impairment of assets' and 'Cash Flow Statements'.

'Provisions and contingencies' has fallen out of the top ten issues for the first time in over five years. This issue is replaced by 'Taskforce for Climate-related Financial Disclosures (TCFD) and climate-related narrative reporting'.

The FRC re-iterates that companies should apply careful judgement to tell a consistent and coherent story whilst ensuring the annual report is clear, concise and Council/Authority-specific.

Pre-issuance checks and restatements

The FRC expects companies to have in place a sufficiently robust self-review process to identify common technical compliance issues. The FRC continues to be frustrated by the increasing level of restatements affecting the presentation of primary statements. This indicates that thorough, 'step-back' reviews are not happening in all cases.

Risks and uncertainties

Geopolitical tensions continue and low growth remains a concern in many economies, particularly with respect to going concern, impairment and recognition/recoverability of tax assets and liabilities. The FRC continue to push for enhanced disclosures of risks and uncertainties. Disclosures should be sufficient to allow users to understand the position taken in the financial statements, and how this position has been impacted by the wider risks and uncertainties discussed elsewhere in the annual report.

Financial reporting framework

The FRC reminds preparers to consider the overarching requirements of the UK financial reporting framework in determining the information to be presented. In particular the requirements for a true and fair view, along with a fair, balanced, and comprehensive review of the Council/Authority's development, position, performance, and future prospects.

The FRC does not expect companies to provide information that is not relevant and material to users, and companies should exercise judgement in determining what information to include.

Companies should also consider including disclosures beyond the specific requirements of the accounting standards where this is necessary to enable users to understand the impact of particular transactions or other events and conditions on the entities financial position, performance and cash flows.

DRAFT

FRC's areas of focus (cont.)

Impairment of assets

Impairment remains a key topic of concern, exacerbated in the current year by an increase in restatements of parent Council/Authority investments in subsidiaries.

Disclosures should provide adequate information about key inputs and assumptions, which should be consistent with events, operations and risks noted elsewhere in the annual report and be supported by a reasonably possible sensitivity analysis as required.

Forecasts should reflect the asset in it's current condition when using a value in use approach and should not extend beyond five years without explanation.

Preparers should consider whether there is an indicator of impairment in the parent when its net assets exceed the Council/Authority's market capitalisation. They should also consider how intercompany loans are factored into these impairment assessments.

Cash flow statements

Cash flow statements remain the most common cause of prior year restatements.

Companies must carefully consider the classification of cash flows and whether cash and cash equivalents meet the definitions and criteria in the standard. The FRC encourage a clear disclosure of the rationale for the treatment of cash flows for key transactions.

Cash flow netting is a frequent cause of restatements and this was highlighted in the 'Offsetting in the financial statements' thematic.

Preparers should ensure the descriptions and amounts of cash flows are consistent with those reported elsewhere and that non-cash transactions are excluded but reported elsewhere if material.

Climate

This is a top-ten issue for the first time this year, following the implementation of TCFD.

Companies should clearly state the extent of compliance with TCFD, the reasons for any non-compliance and the steps and timeframe for remedying that non-compliance. Where a Council/Authority is also applying the CIPFA Climate-related Financial Disclosures, these are mandatory and cannot be 'explained', further the required location in the annual report differs.

Companies are reminded of the importance of focusing only on material climate-related information. Disclosures should be concise and Council/Authority specific and provide sufficient detail without obscuring material information.

It is also important that there is consistency within the annual report, and that material climate related matters are addressed within the financial statements.

Financial instruments

The number of queries on this topic remains high, with Expected Credit Loss (ECL) provisions being a common topic outside of the FTSE 350 and for non-financial and parent companies.

Disclosures on ECL provisions should explain the significant assumptions applied, including concentrations of risk where material. These disclosures should be consistent with circumstances described elsewhere in the annual report.

Council/Authority should ensure sufficient explanation is provided of material financial instruments, including Council/Authority -specific accounting policies.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

Judgements and estimates

Disclosures over judgements and estimates are improving, however these remain vital to allow users to understand the position taken by the Council/Authority. This is particularly important during periods of economic and geopolitical uncertainty.

These disclosures should describe the significant judgements and uncertainties with sufficient, appropriate detail and in simple language.

Estimation uncertainty with a significant risk of a material adjustment within one year should be distinguished from other estimates.

Further, sensitivities and the range of possible outcomes should be provided to allow users to understand the significant judgements and estimates.

DRAFT

FRC's areas of focus (cont.)

Revenue

Disclosures should be specific and, for each material revenue stream, give details of the timing and basis of revenue recognition, and the methodology applied. Where this results in a significant judgement, this should be clear.

Presentation

Disclosures should be consistent with information elsewhere in the annual report and cover Council/Authority - specific material accounting policy information.

A thorough review should be performed for common non-compliance areas of IAS 1.

Income taxes

Evidence supporting the recognition of deferred tax assets should be disclosed in sufficient detail and be consistent with information reported elsewhere in the annual report.

The effect of Pillar Two income taxes should be disclosed where applicable.

Strategic report

The strategic report must be 'fair, balanced and comprehensive'. Including covering all aspects of performance, economic uncertainty and significant movements in the primary statements.

Companies should ensure they comply with all the statutory requirements for making distributions and repurchasing shares.

Fair value measurement

Explanations of the valuation techniques and assumptions used should be clear and specific to the Council/Authority.

Significant unobservable inputs should be quantified and the sensitivity of the fair value to reasonably possible changes in these inputs should provide meaningful information to readers.

Thematic reviews

The FRC has issued three thematic reviews this year: 'Reporting by the UK's largest private companies' (see below), 'Offsetting in the financial statements', and 'IFRS 17 Insurance contracts –Disclosures in the first year of application'. The FRC have also performed Retail sector research (see below).

UK's largest private companies

The quality of reporting by these entities was found to be mixed, particularly in explaining complex or judgemental matters. The FRC would expect a critical review of the draft annual report to consider:

- internal consistency
- whether the report as a whole is clear, concise, and understandable; notably with respect to the strategic report
- whether it omits immaterial information, or
- whether additional information is necessary for the users understanding particularly with respect to revenue, judgments and estimates and provisions

Retail sector focus

Retail is a priority sector for the FRC and the research considered issues of particular relevance to the sector including:

- Impairment testing and the impact of online sales and related infrastructure
- Alternative performance measures including like for like (LFL) and adjusted e.g. pre-IFRS 16 measures
- Leased property and the disclosure of lease term judgements, particularly for expired leases.
- Supplier income arrangements and the clarity of accounting policies and significant judgements around measurement and presentation of these.

2024/25 review priorities

The FRC has indicated that its 2024/25 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

- Industrial metals and mining
- Construction and materials
- Food producers
- Retail
- Gas, water and multi-utilities
- Financial Services

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight (and Risk) Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

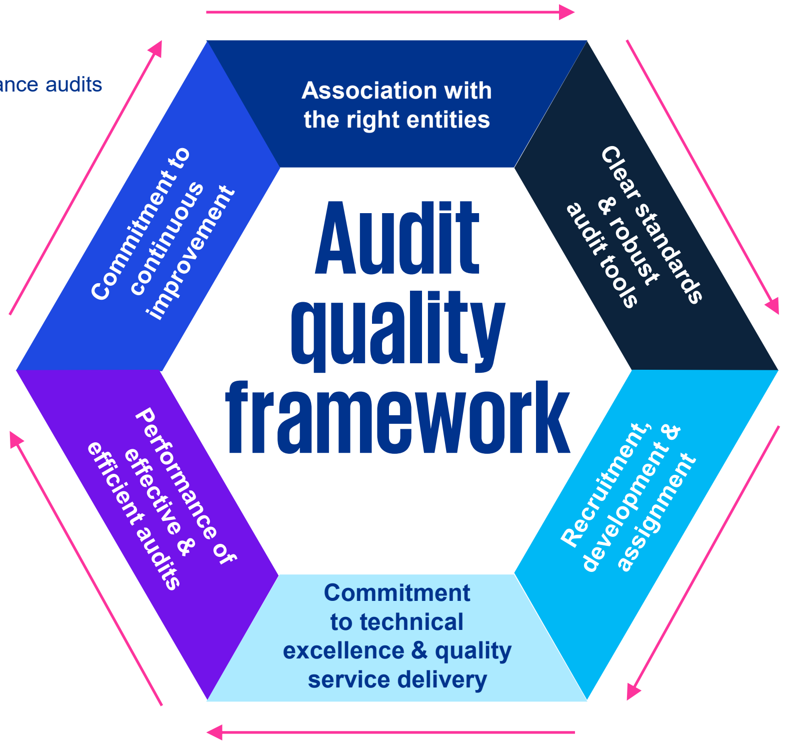
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members

kpmg.com/uk