

READING BOROUGH COUNCIL

REPORT BY STRATEGIC DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	21 NOVEMBER 2017	AGENDA ITEM:	5
TITLE:	ACCOUNTS 2016/17		
LEAD COUNCILLOR:	Councillor Lovelock	PORTFOLIO:	LEADERSHIP
SERVICE:	FINANCE	WARDS:	N/A
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**1. EXECUTIVE SUMMARY**

- 1.1 The Committee was due to receive both the accounts for 2016/17 in September and a report on those accounts from the Council's external auditors, EY. As explained at that time, it was not possible to deliver either due to significant challenges experienced in the preparation of the accounts.
- 1.2 This report sets out the ongoing and future actions by officers of the Council to deliver the 2016/17 accounts and to improve the quality of financial processes and systems in order to deliver a true and fair view in the future.

**2. RECOMMENDED ACTION**

- 2.1 The Committee is requested to consider the current and future actions set out in this report and indicate their support for them, amended as required.

**3. BACKGROUND AND PROCESS**

- 3.1 The Committee received a report in September 2017 stating that it was not possible to present, at that time, a set of signed off and audited accounts for the financial year 2016/17. That report set out the issues that had prevented the successful completion of the accounts.
- 3.2 Since then, significant effort has been committed to addressing the deficiencies in the accounts and this report summarises the actions taken to date and those planned. In undertaking these actions, attention is also being paid to preparations for the completion of the 2017/18 accounts, which must be undertaken by 31 May 2018 with the audit complete by 31 July 2018.

- 3.2 While there remains strong commitment within the Finance Team to delivering improved accounts for audit, it is recognised that to move from the current situation to unqualified accounts within this accounting year is a tough challenge.
- 3.3 One of the first and arguably most important actions to be undertaken was to significantly bolster the resources dedicated to the task of improving the accounts. Other actions have also been initiated to seek to deliver the 2016/17 closedown and to improve processes in 2017/18. The table below briefly sets out the actions underway or planned at the current time.

No.	Comments and Actions	Intended Impact	Underway / Future
1	Fundamental restructure of the Finance Function, to fit with the Chief Executive's proposals for strengthening Corporate Support Services	Improve clarity of roles, capability and capacity within the Function to ensure that both financial and management accounting activity, along with technical tasks, are carried out correctly	U - in consultation phase; due to end 1 Dec.
2	Health check of the Fusion (the main financial ledger) system	Ensure that the system is working as intended, and particularly that the set-up is efficient so maximising system tasks and reducing manual tasks	U - contractor selected; in mobilisation period. Will commence after Fusion upgrade.
3	Recruitment of additional interim technical accountancy capacity	To work with interim Chief Accountant to improve the accounting processes within the wider organisation (e.g. Collection fund accounting)	U - 4 interims now in place and 1 under recruitment
4	Recruitment of permanent Chief Accountant	Seasoned professional required to drive up technical accounting standards and embed them throughout Finance and elsewhere as needed.	U - Chief Accountant commences on 2 Jan 2018. Already engaged in review of structure.

5	Implement new year-end software designed by CIPFA with EY	Implementing the system will both drive improvements in process and structure of the accounts, and it will enable easier production of the accounts in a tighter timeframe next year	U - implementation starts on 14 November.
6	Version 3 of the 2016/17 accounts presented to EY for technical review	Version 2 was reviewed by EY prior to September 2017; corrections were needed and these were done for version 3 by end September. After quality assurance by RBC interims, EY will undertake a technical review to identify any further improvements needed.	U - EY review commences w/c 13 November
7	Reconciliations - per the AGS action plan, a list of reconciliations has been prepared and a review of them is underway. New software will be introduced for bank reconciliation and 2017/18 to date will be reconciled.	Reconciliations are a fundamental part of our control framework. They have not been carried out, in full, for 2017/18 to date and once brought up to date, will be completed on a routine basis.	U
8	Journals - previous EY audit work showed that evidence underpinning journals was not adequate. Evidence is being attached to journals in the Fusion system, focusing on the EY sample initially.	Good quality evidence will be presented for EY audit to give assurance that transactions on the accounts are sound. EY have indicated that they will do some early sample checks to advise on the adequacy of evidence.	U
9	Debtors and creditors - EY were not able to draw samples due to lack of detailed breakdowns of debtor and creditor balances and impact on control account reconciliations.	It was identified during the external audit that officers had difficulty in breaking down in detail balances held in Oracle. This will require further investigatory work on source systems that feed the Oracle General ledger.  Once this is completed, then EY can draw their samples and test transactions. This area is very important as it is the one with most potential to affect the outturn position.	U

10	Correct issues identified during the 16/17 audit and address these for the 17/18 financial year.	Preparation for the valuation of assets is underway for the 17/18 year end. Review of the fixed assets spreadsheet for 2017/18 is underway. We are also working with RTL to align financial years and accounting treatments if possible.	F and U
11	Implement new processes to ensure that inadequate practice identified in 2016/17 is amended for the later part of 2017/18	To improve the standard of accounting practice as a foundation for the remainder of 2017/18 and beyond	F with some U
12	Interim Directorate Accountant for DACHS secured for the remainder of the financial year	Required to improve management accounting and support to the directorate in controlling budgets in challenging circumstances	U - commenced in post on 2 October

- 3.5 While EY are unable to undertake formal audit work during this period, contact is being maintained with EY colleagues to seek guidance and advice where possible. Particularly, where they are able to undertake some informal review then EY are doing so in order to offer some assurance or further guidance. We are grateful for this support.
- 3.6 The target remains for the 2016/17 accounts to be ready for audit before the end of December and for the audit to commence in January 2018. Work to prepare for the 2017/18 closure of accounts will overlap with this action plan. The Committee will be updated on progress at each meeting.