

READING BOROUGH COUNCIL

REPORT BY STRATEGIC DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	25 JANUARY 2018	AGENDA ITEM:	8
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 accounts for 2016/17 were due to be completed and audited by the end of September 2017. As explained at that time, it was not possible to deliver signed and audited accounts due to significant challenges experienced in their preparation.
- 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 the current 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 - consultation phase is complete; minor amendments made to initial proposals; selection processes underway shortly
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; Fusion upgrade now completed and arrangements for the healthcheck are being made with start date of 23 January 2018
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)	Complete - all required interims have been in place for several weeks
4	Recruitment of permanent Chief Accountant	Seasoned professional required to drive up technical accounting standards and embed them throughout Finance and elsewhere as needed	Complete - new Chief Accountant commenced in post on 2 Jan 2018
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	U - Work has started with CIPFA during December 2017 but progress has been delayed due to personal issues with the

		enable easier production of the accounts in a tighter timeframe next year	CIPFA consultant assigned to the RBC implementation. Alternative resources from CIPFA are due to be assigned w/c 15.01.18
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 the majority of these were done for version 3 by end September. Version 4 was reviewed by EY in October and they noted improvements, but also that there was more work to be done. Version 5 to be submitted to EY for review on 15 January	U - We have submitted V5 for review to EY who are reviewing this version of the SOA on the 15 and 16 January; the majority of technical issues are thought to be resolved; however the narrative statement requires further work during January 2018
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 of key systems with the General Ledger (Oracle) are a fundamental part of our control framework. Whilst routines are in place, they have not been carried out in full for 2017/18 to date, but are being brought up to date and will then be completed on a routine basis	U - Since September 2017, relevant officers have been asked to send reconciliations to the Finance Service within 1 month of the month end. Review of the reconciliations received has highlighted various historic transactions that need clearing; these are currently being progressed. Procedure notes are also being reviewed; on initial inspection, they generally appear to be sensible outlines of the reconciliation work required. Not all reconciliations currently balance, and those not in balance are in discussion between the Head of Finance and relevant staff doing the reconciliation. Software changes to facilitate a revised simplified bank reconciliation process are being implemented.

			A simplified schedule of reconciliations is also being prepared for periodic consideration by senior finance managers and the officer Due Diligence Group. Most 31/3/17 reconciliations had been completed
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 is being presented for EY audit to give assurance that transactions on the accounts are sound. As this report is being written, EY are undertaking their review work in this area	U - Good progress has been made through the 581 sample and EY have now reviewed many of the samples and their queries appear to be resolved; it is hoped to give a further oral update at the meeting
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 - Debtors samples have commenced being drawn by EY w/c 08.01.18 and officers are assisting with providing evidence and explanations for balances. It is expected that Creditor balances will be able to be drawn by EY after the 19 th January 2018
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	F and U EY have commenced reviewing assets for 16/17 and correction for AUC, Surplus and investment properties. RBC has engaged with external valuers for the 17/18 revaluations
11	We are working with RTL to consider aligning financial years and accounting treatments	It is necessary for RBC to ensure that the transactions and accounts of RTL are	RBC has obtained aligned accounts from RTL which have been audited by the interim internal auditor to

	if possible. Journal controls are in place. Improved arrangements for reconciliations are in place	audited and verified as they are then consolidated into RBC accounts	provide scrutiny on RTL's reported and consolidated results. The audit results will be shared with EY as part of the 16/17 issues for resolution. In addition to this RBC will also audit the 17/18 aligned accounts in due course
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	U - A revised journal process has been implemented to include senior officer review & sign off. Journal evidence improved though resourcing the checks is proving challenging and highlighting other issues needing to be fixed; reconciliations underway. The second phase of Journal controls have been implemented w/c 15.01.18 and training will be rolled out by the interim internal auditor during January 2018
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	Complete- commenced in post on 2 October

3.5 EY began to undertake some formal audit work during December and continue to have auditors on site to carry on the work. Regular update meetings take place between the Director of Finance and Maria Grindley (Associate Partner at EY), to provide updates and seek guidance and advice where possible.

3.6 At the present time it is estimated that our programme of work is about two weeks behind where we had planned it to be, although EY sent auditors in about two weeks earlier than expected. While, overall, we would have liked to be further ahead, it is an achievement to be where we are. When the timetable to the end of December 2017 was set, the interim team, who largely had no previous involvement with the accounts, could only anticipate the challenges that they may find. They have discovered more issues than anticipated and have therefore worked hard to keep to as near

the target date as possible. It is very helpful that EY are being flexible with the deployment of auditors to make sure that there is sufficient material to keep them all occupied. The onus is now on the Finance Service to keep the audit packages flowing and to respond to EY queries swiftly.

- 3.7 EY have explained that a key document for them is Version 5 of the Statement of the Accounts, which will be supplied to them on 15 January for review. While the underpinning transactions will still need to be tested, the accuracy and attention to detail with which we put this document together will indicate to EY how far the Council is away from a signed off set of accounts.
- 3.8 The Chief Accountant is now developing the plan for the 2017/18 closure of accounts to ensure that we meet the even tighter deadline. Many of the actions already taken and foundations laid through repairing the 2016/17 account will support the closedown for 2017/18. The Committee will be updated on progress at each meeting.