

READING BOROUGH COUNCIL

DIRECTOR OF RESOURCES

TO:	AUDIT AND GOVERNANCE COMMITTEE		
DATE:	17 APRIL 2018	AGENDA ITEM:	4
TITLE:	ACCOUNTS 2016/17		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	BOROUGHWIDE
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1. EXECUTIVE SUMMARY

- 1.1 As previously reported to this Committee, the Council's 2016/17 Accounts should originally have been audited and signed off by the end of September 2017. However, due to issues arising during the audit process that was not possible. The Committee has subsequently received regular updates on the progress being made towards completing the audit. This report updates the Committee on progress since its last meeting in January 2018.
- 1.2 In part as a consequence of the issues outlined above Members will be aware that the Council agreed to undertake a fundamental review of its Finance function (Future Finance Function (FFF) review). This has progressed well since January. All staff put at risk by the review have been through the recruitment process and those that have been successful will transfer to their new roles from the 1st of May. An active recruitment process to fill the vacancies subsequently arising has begun and a number of key posts have already been filled, albeit not all appointees have as yet started due to notice arrangements.
- 1.3 An amended set of Accounts which rectified all known errors as at that point was presented to the Council's External Auditors Ernst & Young (EY) on the 20th of March.
- 1.4 The work of the Council's Finance Team has been reprioritised to provide an increased impetus to resolving all outstanding issues and facilitating EY concluding the 2016/17 audit in May 2018 subject to their internal peer review process.
- 1.5 Importantly; lessons are being learnt for the 17/18 process.

2. RECOMMENDED ACTION

2.1 To note the progress made in closing the 2016/17 accounts.

3. BACKGROUND AND PROCESS

3.1 A revised version of the Accounts (ver. 6) was submitted to the Council's External Auditors on the 20th of March. At that point 21 queries were outstanding. Of those, 10 queries have now been fully cleared and a further 6 returned to EY for their further review.

3.2 The 5 residual queries still being dealt with by the Council relate to:

- a) Collection Fund and treatment of NNDR appeals provisions;
- b) HRA Disclosures;
- c) Valuation Methodologies relating to Assets Held for Sale
- d) Accruals Matching; and
- e) Supplier invoices relating to Property, Plant and Equipment purchases made during 2016/17.

3.3 Since the 20th March EY have raised a further 21 queries of various complexity. These have arisen either as the result of their review of the information previously provided by the Council, or as a result of further progress in their work-plan.

3.4 Of these new queries, approximately 48% have been received in April. To date, 7 of the new queries have been fully closed and the rest are all being actively worked on.

3.5 A significant proportion of the queries outstanding include providing evidence for particularly large sample sizes relating to income, accruals, accounts payable and accounts receivable testing schedules. Priority is being given to this work and it is anticipated that all of this evidence will have been provided to EY by the time of this meeting.

3.6 There are two key issues which have arisen from EY's technical review and which Finance staff, the Council's Valuers and consultants are working to resolve, these relate to:

- a) Property Plant and Equipment valuation bases - It is anticipated that any required changes in this area will only impact on the Balance Sheet, potentially changing the classification of a small number of assets with corresponding changes confined to a reallocation between Unusable Reserves; and
- b) The carrying value of the Council's PFI contracts - A conference call was held on 13 April between EY and the Council's advisors Arlingclose, to clarify the assumptions underpinning a proposed alternative accounting model. Further work is being undertaken as a result of this meeting and an agreement as to the accounting treatment and model to be used is

expected by 20 April. At the time of writing it is not entirely clear what the impact of any changes might be.

- 3.7 Resolving all outstanding queries and finalising the 16/17 audit has now been prioritised above all other work within the Finance Team, as agreeing the position is essential to enable colleagues to move on with closing the 17/18 Accounts. To that end daily 'catch ups' have recently been instigated between the Council's Head of Finance, Chief Accountant and EY's on site lead to track the status and progress of all issues. Where necessary, previous consultants originally involved in closing the accounts are being brought back in to assist with query resolution and weekly meetings are being held including the Council's Director of Resources and Auditor, Maria Grindley.
- 3.8 It is hoped that this increased focus will enable EY to complete their audit by the end of April and sign off the accounts in May, subject to EY'S internal peer review process not raising any additional concerns.
- 3.9 In light of the position with the 16/17 accounts. Delivering the 2017/18 accounts by the end of May is an enormous challenge. However, in addition to the recent appointment to key posts, lessons are being learnt by the Team in terms of the controls which need to be in place, evidence requirements, best practice and quality assurance (QA), all of which stand us in good stead going forward. To assist in the Council's QA process for 17/18 Internal Audit will undertake sample checks of Journals, Creditors and Debtors listings on a similar basis to that undertaken by EY, so that any issues identified can be addressed prior to the audit.

4. EQUALITY IMPACT ASSESSMENT

- 4.1 Not applicable.

5. LEGAL IMPLICATIONS

- 5.1 None arising directly from this report

6 FINANCIAL IMPLICATIONS

- 6.1 As set out in the body of the report