

READING BOROUGH COUNCIL

DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	24 JANUARY 2019	AGENDA ITEM:	10
TITLE:	UPDATE ON 2016/17 AND 2017/18 ACCOUNTS		
LEAD COUNCILLOR:	COUNCILLOR BROCK	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	BOROUGHWIDE
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1. EXECUTIVE SUMMARY

- 1.1 Regular reports have been received by the Committee providing updates on progress with completing the 2016/17 audit. This report updates the Committee on progress since its last meeting in September 2018.
- 1.2 In early October 2018, following discussions with EY's technical experts regarding the methodology previously used by the Council to value its Fixed Assets the Council tendered for fresh valuations of its property portfolio as at 1st April 2015, 31st March 2016 and 31st March 2017. It is expected that the new valuations, along with amendments to the historic accounting treatment of depreciation and impairment will resolve the outstanding queries on the 2016/17 accounts.
- 1.3 Officers have applied the learning from the 2016/17 process to the completion of the 2017/18 accounts. EY have now started preparatory work on the 2017/18 audit and the accounts will be handed to EY as soon as is practical once the 2016/17 accounts are finalised.

2. RECOMMENDED ACTION

- 2.1 To note the progress made by the External Auditor and officers in finalising the 2016/17 accounts.
- 2.2 To delegate authority to the Chair of the Committee to sign the final version of 2016/17 accounts, following consultation with the S151 Officer.
- 2.3 To note the progress made in closing the 2017/18 accounts.

3. BACKGROUND AND PROCESS

- 3.1 The External Auditors (EY) recommenced the audit in August and the audit is ongoing. EY have already indicated that they will need to qualify the Creditor and Debtor figures in the 2016/17 accounts. As previously reported this qualification results from issues in identifying sufficient evidence to substantiate some creditor and debtor balances given poor historic documentation, the passing of time and turnover of officers. Confirmation is still awaited from EY as to whether the qualification is on grounds of uncertainty of recognition (i.e. does the Council actually owe the liability or does it actually have an asset) and /or measurement (i.e. is what has been recognised appropriately valued in the Statement of Accounts). If the qualification is only on the grounds of uncertainty of recognition changes to the accounts will not be required.
- 3.2 Agreement has now been reached between the Council and EY regarding the accounting for the Council's two Public Finance Initiative (PFI) Schemes. The required changes will be made to the final version of the accounts and will not impact on the Council's usable reserves.
- 3.3 At the September meeting, it was anticipated that the outstanding issues regarding Fixed Assets would be resolved by early October. However, further concerns were raised by EY about the valuation of the council's assets and as outlined above new valuations were subsequently commissioned and further work undertaken.
- 3.4 The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code), requires "Where assets are revalued revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period."
- 3.5 Officers requested a market report from the valuation firm undertaking the 2017/18 valuations to address EY's concerns about property market movements since assets were last valued. This confirmed that whilst all assets were scheduled to be revalued once every five years, valuations were done as at 1st April in each year, not at 31st March, meaning that for 2016/17 some assets were last valued at 1st April 2012. It is accepted practice that all similar assets should be revalued at the same time; however this had not been the Council's practice, with a range of assets valued each year.
- 3.6 Consequently in early October new valuations were commissioned for a range of the Council's assets at the three balance sheet dates that are included in the 2016/17 accounts, 1st April 2015, 31st March 2016 and 31st March 2017. Valuations of all assets with a book value above £1m (64

properties) and a range of lower value assets (86 properties out of a total of approximately 300) have subsequently been completed.

- 3.7 In letting the contract it was also decided to revise the valuations for 2017/18 as well as include the valuations required for 2018/19 and 2019/20. Tenders were sought from three firms via a framework contract and the contract was awarded in the middle of November.
- 3.8 The valuation firm completed their fieldwork in December and started passing valuations to the Council in week commencing 16th December, with the bulk received before Christmas. The final valuation details were received early in week commencing 6th January and it is planned to pass the details of the valuations and the proposed amendments to the accounts to EY by Monday 14th January. A final version of the 2016/17 accounts will then be passed to EY by the beginning of the following week.
- 3.9 EY have indicated that they have completed all the other remaining audit work for 2016/17. It is anticipated that they should be able to complete the audit of the final changes to the accounts for Fixed Assets and PFI in early February.
- 3.10 EY's Associate Partner, Maria Grindley, has confirmed that her draft opinion will be subject to consultation with the Council and review by EY's Professional Standards Panel. Therefore, EY will not be in a position to give an opinion on the accounts until February.
- 3.11 The final accounts will need to be formally signed by the Chair of the Audit and Governance Committee, but as there may still be some final changes required following the auditors review, the accounts cannot be signed at this meeting. It is therefore recommended that the Committee delegate authority to sign the final version of the accounts to the Chair of the Committee in consultation with the Council's S151 Officer.
- 3.12 Discussions have taken place between EY and council officers about the content of their "Audit Results Report" and a draft report will be presented to the Committee, but at the time of writing the report is still being prepared by EY. Indications are that the report will cover at least fifteen material agreed changes, approximately thirty non-material agreed changes and over twenty other agreed presentational changes. These amendments have/are being taken into account in the preparation of the 2017/18 accounts.
- 3.13 Until the 2016/17 Accounts have been signed off by EY and the revised valuations for the 2017/18 accounts are received at the end of January it is not possible to finalise the 2017/28 accounts.
- 3.14 It is anticipated that the 2017/18 accounts and working papers will be ready for issue to EY by the middle of February 2019.

4. EQUALITY IMPACT ASSESSMENT

4.1 Not applicable.

5. LEGAL IMPLICATIONS

5.1 Part Five of the Accounts and Audit Regulations 2015 requires authorities to allow the public to inspect the accounts for a single period of 30 working days and stipulates that must include the first 10 working days of June of the financial year immediately following financial year. The Council were unable to comply with this requirement in respect of the 2017/18 Accounts as they were not ready for inspection. As soon as the 2017/18 accounts are ready, the Council will publish a formal notice on the website and open the accounts for the 30 working day inspection period.

6. FINANCIAL IMPLICATIONS

6.1 The indicative audit fee notified by EY in April 2016 for the 2016/17 audit was £108,938. This fee was in line with the scale fee set by Public Sector Audit Appointments Ltd. Due to the additional work that EY have undertaken on the audit over the last year, they have advised that the final fee is likely to be at least £300,000 more than the indicative fee.

6.2 The additional valuation work commissioned required to enable the completion of the 2016/17 and 2017/18 accounts has cost £139,000.