

READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE

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| TO: | AUDIT & GOVERNANCE COMMITTEE | | |
| DATE: | 19th JULY 2022 | | |
| TITLE: | CLOSING FINANCIAL ACCOUNTS UPDATE | | |
| LEAD COUNCILLOR: | COUNCILLOR TERRY | PORTFOLIO: | CORPORATE AND CUSTOMER SERVICES |
| SERVICE: | FINANCE | WARDS: | BOROUGHWIDE |
| LEAD OFFICER: | MARK SANDERS | TEL: | |
| JOB TITLE: | CHIEF ACCOUNTANT | E-MAIL: | Mark.Sanders@reading.gov.uk |

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report updates the Committee on progress with the completion of the audit of the Council's Final Accounts for 2019/20, and the preparation for the 2020/21 and 2021/22 accounts. The information contained in the report was the position at 08 July 2022. This report should be considered alongside the External Auditors' (EY) progress report.

2. RECOMMENDED ACTION

- 2.1 That the Committee notes the progress made on the audit of the accounts for 2019/20, and the preparation for following years' 2020/21 and 2021/22 accounts.
- 2.2 That the Director of Finance, in consultation with the Chair of Audit & Governance Committee, be authorised to sign off the Statement of Accounts for 2019/20 on behalf of the Council.

3. SUMMARY

2019/20 Accounts

- 3.1 Members will recall that the draft 2019/20 accounts were published on 10 November 2021 and are currently subject to External Audit scrutiny.
- 3.2 At the last Committee meeting in April 22, it was reported that the accounts process was almost complete and likely to be concluded by July 22. Since then, despite an increase in the focus and resources by both the Council's and external auditor's teams the remaining audit queries have taken longer to resolve than anticipated.
- 3.3 This work has involved reviewing and re-calculating estimates for bad debt provisions and providing information to support income reconciliations.

- 3.4 There are two main areas of work which the Council has been working on that have not yet been concluded. These relate to Cash Income Suspense and Intercompany transactions between the Council and Brighter Futures for Children. This work is likely to be resolved by the time of the Committee meeting and a verbal update will be provided on the day.
- 3.5 With regard to the rest of the audit, EY have indicated that their work is almost complete, with residual write ups and reviews finished by around the end of July.
- 3.6 There have been a number of technical and presentational adjustments which have been made to the draft accounts, with both Council and External Audit Staff focussing on making improvements which will in turn help to reduce the time it takes to audit future years' accounts.
- 3.7 Based on the number of audit queries that remain, the Council aims to complete all the work relating to 2019/20 by the date of this of this Committee meeting. EY will then be able to consider their view on the accounts.
- 3.8 The final sign off will need to take account of the outcome of a technical CIPFA consultation on temporary changes to accounting for Infrastructure Assets. This consultation is affecting nearly all Local Authorities which may delay the receipt of formal audit opinions whilst the matters are being considered nationally.
- 3.9 Although it is not clear when the relevant Accounting Codes of Practice will be updated following the results of this consultation, it is anticipated that further information will be available in August 2022.

National progress on audit opinions

- 3.10 The latest national data on the completion of audit opinions shows the sector is facing significant challenges in completing external audits.
- 3.11 Up until 31 May 2022, a total of 51 local authorities have not had Audit Opinions issued for 2019/20, with a further 19 opinions delayed from earlier years. There are clearly several issues still being addressed at other authorities, and these issues present a significant challenge for the sector to overcome and impact on external audit resource planning.
- 3.12 The position for 2020/21 is that 201 audit opinions are still in progress. Given that CIPFA is consulting on changes to Infrastructure accounting, this may be a significant factor.
- 3.13 Looking forward, the Council will continue to work with EY in planning for the preparation and audit of future years' accounts.

Adjusting Items

- 3.14 There have been a number of adjusting items which the Council has agreed and corrected in the accounts. The more significant items concluded to date are in relation to:-
- 1) a miscoding error between short and long-term borrowing;
 - 2) the transfer of a school to Academy status which occurred in 2019/20 but which had not been reflected in the accounts at 31 March 2020;
 - 3) amendments have been made to bad debt provision calculations;

- 4) 4 duplicate assets which were reflected in both the HRA and the General Fund (GF)
 - 5) A Housing Benefit overpayment adjustment which reduces a short term debtor and also; and
 - 6) We identified mortuary assets which were transferred at nil value from the Home Office but we had not reflected on our Balance Sheet at 31 March 2020. We have now received valuations in respect of these assets which has added £0.1 million to the Council's Land and Buildings valuations.
- 3.15 The Council's finance officers have made a judgement regarding a reconciliation difference between sundry debtor's values that are identified on the Council's finance system, and the total held on a separate off ledger Academy system. A key Aged Debtor report was not run at the required 31 March cut off, which has resulted in timing differences between the two systems and difficulties in reconstituting the balance. A timing difference of £0.5 million has been identified, however this is not considered material and as the statement of accounts must reflect the actual transactions recorded in its general ledger, no further adjustments have been made.
- 3.16 At time of drafting this report, there are two areas of work in progress which are expected to be concluded by the date of this Committee meeting:-
- 1) Cash Income Suspense - verifying that income collected should be set against debtors; and
 - 2) Inter Company Accounts - Verifying offsetting Debtor / Creditor Balances between Reading Borough Council and its wholly owned subsidiary Brighter Futures for Children. This work has proved to be complicated in nature, where the need for timing accuracy between the two organisations is vital.
- 3.17 All the required amendments for the adjusting items to date, have now been made.

Technical Assessments and CIPFA Consultation on Infrastructure Assets

- 3.18 The external audit work to review the Council's use of technical advisors to provide specialist advice around Asset valuations; PFI contracts and pension liabilities are almost concluded with no significant issues arising. It was noted at the last meeting of this Committee that there were issues identified in the audit of the Pension Fund (none relating the Reading Borough Council), for completeness these issues have now been resolved and we have reflected the updates to the Pension Fund valuation, following its audit, in our accounts.
- 3.19 CIPFA has issued a consultation on implementing temporary proposals relating to accounting for Infrastructure Assets (road, footpaths etc). The closing date for this consultation was 14 June 2022.
- 3.20 This is a technical issue arising from a need to de-recognise (remove) the part of an infrastructure asset that is being replaced in a given year.
- 3.21 It could be considered that this de-recognition is not applied on the assumption that the asset lives are fully used up before the replacement expenditure takes place, with Council's depreciation policies reflecting this approach. In practice, Councils have held infrastructure balances for many decades, making the identification of detailed records challenging.

- 3.22 The gross book value and accumulated depreciation values of Infrastructure Assets may not have been adjusted to reflect de-recognition transactions in local authorities accounts where historic information is not held.
- 3.23 The consultation sought views with the aim of assisting the current reporting position and with the representation of meaningful information for the users of local authority financial statements.
- 3.24 Reading Borough Council has £130 million of Infrastructure Assets at 31 March 2020. It is worth noting that these assets are mainly of accounting significance, ie that they are not considered the same as a Land and Building Asset which could be readily sold.
- 3.25 The Council will review developments as they arise and incorporate any changes in accounting guidance when issued and formally include in relevant codes of practice.

2020/21 and 2021/22 Accounts

- 3.26 The Council's Final Accounts team has also been progressing the production of the Statement of Accounts for 2020/21, taking account of the roll forward impacts of adjustments to the 2019/20 accounts, reviewing areas and working papers where improvements need to be made.
- 3.27 The Council's External Auditors, EY, have confirmed they will allocate their resources to begin the 2020/21 audit process at the beginning of August 2022. This is excellent news and confirms that progress is being made with the aim to sign off the accounts by December 2022. This will be a significant improvement from previous years and reinforces that the Council is on track to return to a more timely audit process.
- 3.28 Subject to any remaining audit matters arising, it is intended that the draft 2020/21 accounts will be published and available for public inspection during August 2022.
- 3.29 The first stage in the production of the 2021/22 accounts has been completed. This is primarily based on the closure of the annual management accounts, and the receipt of asset and pension valuations from external advisors. Although focus will shortly turn to the 2020/21 process, many of the working papers for both years can be prepared and reviewed concurrently. The intention is for the 2021/22 Statement of Accounts to be made available for public inspection in January 2023 to coincide with the external audit work commencing, subject to agreement with EY.
- 3.30 The Council will continue to focus on controls and working paper improvements with the clear aim of reducing the time it takes to conclude audit processes. This will include taking account of emerging national accounting/auditing issues as they arise.

4. CONTRIBUTION TO STRATEGIC AIMS

- 4.1 The production of annual Statement of Accounts results in the publication of accurate, transparent financial information which gives a true and fair view of Reading Borough Council's economic performance and financial stability.

5. ENVIRONMENT AND CLIMATE CHANGE IMPLICATIONS

- 5.1 None arising.

6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1 The draft 2019/20 accounts were made available for public inspection during November / December 2021 as required under Part Five of the Accounts and Audit Regulations 2015.

7. EQUALITY IMPACT ASSESSMENT

7.1 Not applicable.

8. LEGAL IMPLICATIONS

8.1 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 the financial year to which the accounts relate. The Council was unable to comply with this requirement in respect of the 2017/18, 2018/19, 2019/20 and 2020/21 accounts as they were not ready for inspection.

9. FINANCIAL IMPLICATIONS

9.1 The audit fees for 2019/20 will be reported in due course.

10. BACKGROUND PAPERS

10.1 None.