

READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	28th SEPTEMBER 2022		
TITLE:	CLOSING FINANCIAL ACCOUNTS UPDATE		
LEAD COUNCILLOR:	COUNCILLOR TERRY	PORTFOLIO:	CORPORATE AND CUSTOMER SERVICES
SERVICE:	FINANCE	WARDS:	BOROUGHWIDE
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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 16 September 2022. This report should be considered alongside the External Auditors' (EY) Audit Results Report update.

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.

3. SUMMARY

- 3.1 Continued progress has been made by both the Council's Finance team and the External Auditor's (EY) team since the last committee meeting with increased resources being allocated to complete residual work on the 2019/20 Statement of Accounts and to begin the audit of the 2020/21 accounts whilst they are being prepared.
- 3.2 Both teams are managing two sets of data which although increases the complexity of the work, it also enabled the experienced and consistent staff to identify learning points in real time and embed them during the process.
- 3.3 This has involved detailed planning and work allocations to achieve and both teams are thanked for their continued hard work. The priority is clearly on bringing the whole accounts process up to date and the approach being adopted and commitment to achieve this aim continues to be beneficial.

2019/20 Accounts

- 3.4 Members will recall that the draft 2019/20 accounts were published on 10 November 2021 and has been subject to External Audit scrutiny since that date.
- 3.5 At the last Committee meeting in July 22, it was reported that the accounts process was almost complete but had taken longer than anticipated to complete. It is pleasing to note that at the time of writing that all information and explanations have been provided to the External Auditor (EY) who are now in the stage of final write ups and concluding the audit.
- 3.6 Elsewhere on tonight's agenda EY will be presenting their updated Audit Finding Report (with the updates highlighted in blue text in their report) together with a verbal update on matters progressed and finalised over the last few days. It can be seen that the process is all but complete, with just one outstanding item which relates to the national challenge regarding the accounting treatment and disclosure of Infrastructure Assets. This is noted in further detail at paragraphs 3.17 to 3.23 below.
- 3.7 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.
- 3.8 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 It is not clear when the relevant Accounting Codes of Practice will be updated following the results of this consultation, there was anticipation that further information will be available from CIPFA before the date of this committee however it is more likely that further news will be some weeks away. The Council will continue to monitor developments.
- 3.10 At the last meeting of the Committee, delegation was approved for the Director of Finance, in consultation with the Chair of Audit & Governance Committee, to sign off the Statement of Accounts for 2019/20 on behalf of the Council.

National progress on audit opinions

- 3.11 The latest national data on the completion of audit opinions shows the sector is facing significant challenges in completing external audits. Whilst the latest available information was correct at 31 May 22, it is not expected to have improved significantly since then.
- 3.12 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.
- 3.13 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.

- 3.14 Looking forward, the Council will continue to work with EY in planning for the preparation and audit of future years' accounts.

Adjusting Items

- 3.15 There have been a number of adjusting items which the Council has agreed and corrected in the accounts. These are listed in more detail in EY's Audit Findings Report elsewhere on tonight's agenda.
- 3.16 All the required amendments for the adjusting items have been agreed and implemented.

Infrastructure Assets Update

- 3.17 Reading Borough Council has a net book value of £130 million of Infrastructure Assets at 31 March 2020. The accounting treatment and disclosure requirements are currently being reviewed nationally and until this is resolved it is preventing formal conclusion of the 2019/20 accounts.
- 3.18 The CIPFA Local Authority (Scotland) Accounts Advisory Committee (LASAAC) has recently approved an update to the Accounting Code that will remove the requirement to report gross cost and accumulated depreciation. The Code Update is still subject to formal consideration by the Government's Financial Reporting Advisory Board, but it is anticipated that the update to the Code will be available during mid to late September. This should remove concerns about reporting of gross book values and accumulated depreciation.
- 3.19 CIPFA has confirmed that it is now working with the Government and devolved administrations on a time limited statutory prescription (override) related to component derecognition. Whilst the Government's decision on this is still awaited, it is hoped that this will address auditors' concerns about the efficacy of net book values for infrastructure assets.
- 3.20 The remaining issue would then be the requirement to demonstrate the effectiveness of depreciation policies for infrastructure assets.
- 3.21 If approved by the Financial Reporting Advisory Board, the statutory override will allow auditors (notwithstanding any other issues that arise from audit) to sign off accounts without qualifications. However, the anticipated update to the Code is still some weeks away.
- 3.22 The Council has provided analysis and a briefing note to EY to confirm what financial records are available. A significant consideration is that work was undertaken for the 2016/17 accounts to reduce (impair) the carrying value of Infrastructure Assets and establish individual asset lives which in turn confirms a more accurate annual depreciation charge.
- 3.23 The Council continues to work with EY to resolve this issue and will incorporate any changes in accounting guidance when issued.

2020/21 and 2021/22 Accounts

- 3.24 The external audit of the 2020/21 accounts began at the start of August 2022 as planned.

- 3.25 The Council has twice-weekly updates with EY to track progress with requests for audit evidence with no issues arising to date.
- 3.26 The 2020/21 Statement of Accounts document is in the final stage of production at the time of writing. It is anticipated that the draft accounts will be published and made available for statutory public inspection before the date of this committee. A verbal update will be provided.
- 3.27 To facilitate the start of the audit process, the Council has been releasing on a staged basis the sections of the accounts that are completed with the aim of providing a steady stream of work for audit staff. This is being closely managed to ensure optimum use of resources available.
- 3.28 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 is also on the 2020/21 process, many of the working papers for both years are being 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.
- 3.29 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.

Final Accounts Plan

- 3.30 The following table confirms the plan to bring the accounts process back up to date by the 2022/23 accounts process concluding in September 23. It is dependent on the incremental successful approval of each year's accounts and on resources being available to both Council and EY staff.

Table 1: Final Accounts High Level Plan

Estimated dates in Italics

Status	19/20	20/21	21/22	22/23
Mgt Accounts / Accruals	Completed	Completed	In Progress	Not Started
Statutory Accounts	Completed	In Progress	Not Started	Not Started
Audit Fieldwork / Sign-Off	In Progress	In Progress	Not Started	Not Started

Deadlines	19/20	20/21	21/22	22/23
Mgt Accounts / Accruals	Completed	Completed	<i>Jul-22</i>	<i>May-23</i>
Statutory Accounts	Completed	<i>Sep-22</i>	<i>Dec-22</i>	<i>May-23</i>
Audit Fieldwork / Sign-Off	<i>Sep-22</i>	<i>Dec-22</i>	<i>May-23</i>	<i>Sep-23</i>

Publication	19/20	20/21	21/22	22/23
Draft Accounts Published	10-Nov-21	<i>Sep-22</i>	<i>Dec-22</i>	<i>May-23</i>
Draft Accounts Deadline	31-May-20	31-Jul-21	31-Jul-22	31-May-23
	+ 1yr 5 months	+ 1yr 2 months	+ 5 months	On Time
Audited Accounts Published	<i>Oct-22</i>	<i>Dec-22</i>	<i>May-23</i>	<i>Sep-23</i>
Audited Accounts Deadline	31-Jul-20	30-Sep-21	30-Nov-22	30-Sep-23
	+ 2yrs 2 months	+ 1yr 3 months	+ 6 months	On Time

- 3.31 The Council has put in place an experienced team to achieve this plan. Where the team is supplemented by temporary staff covering vacancies, permanent recruitment will take place over the forthcoming months which will be managed carefully to enable handover of skills and knowledge. This will be undertaken in conjunction with the Finance Improvement Programme.

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. It is anticipate that the draft 2020/21 accounts will be available over October 2022.

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 financial years 2017/18 to 2021/22 as the accounts 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.