

READING BOROUGH COUNCIL

AUDIT & GOVERNANCE COMMITTEE

16 APRIL 2019

QUESTION NO. 1

Colin Lee to ask the Chairman of the Audit & Governance Committee:

Accounts 2016/17

As I understand it, this committee has alleged that the cause for the failure to deliver 2016/17 accounts spans from Oracle to data input and recently the previous auditors. Can the Chair please give a comprehensive statement as to the reasons why this Council has been impotent to deliver a set of fully audited accounts in a timely manner, stating clearly 1) where blame rests and 2) the full cost of this failure; not just, the current auditors costs. If this chamber cannot deliver a more comprehensive review, does this not demonstrate still further a weakness in management practices?

REPLY by Councillor Davies (Vice-Chair of the Audit & Governance Committee):

It is the responsibility of the Council's designated 'responsible financial officer' (s151 Officer) to prepare the Council's accounts for audit. The Council has a responsibility to ensure they have the necessary resources to fulfil their role.

This Committee has received regular reports from officers on progress with completing the 16/17 audit, the causes for delay and the remedial action taken to address underlying issues. These reports are a matter of public record and available on the Council's website and I would refer you to them rather than repeat the detail of their contents here.

However, the key issues which have prevented the 16/17 accounts from being signed off earlier include:

- Historic problems regarding the capacity within some parts of the Finance Function and a consequential breakdown in internal control resulted in poor quality working papers and an inability to provide appropriate evidence to the external Auditors. These issues have been addressed going forward through a restructure of the Finance function, the introduction of new systems and procedures and quality assurance processes.
- The historic accounting treatment of the Council's two PFI contracts and valuation of HRA dwellings has required the Council to re-calculate each year's position from the inception of the PFI's and from 2007 for the HRA dwellings. These have been highly technical, complex and time consuming pieces of work.
- Additionally, Red Book compliant valuations have had to be obtained and processed for around 150 of the Council's high value fixed assets.

Without having completed this work our external auditors would not have been able to issue an opinion at all on the accounts.

The external auditor's fee for the work undertaken on the 2016/17 audit is expected to be over £400,000 in addition; the cost of the valuations work undertaken was £139,000. We believe the investment in improving the accounts for 16/17 will be beneficial for future years.

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QUESTION NO. 2

Colin Lee to ask the Chairman of the Audit & Governance Committee:

Management Data

I would appreciate it if the Chair could confirm that he is satisfied with the quality and the clarity of information that is provided to this committee in terms of "management data" to ensure that there is no repeat of the 2016/17 accounts fiasco and in doing so highlight what changes and improvements he would wish to see in terms of reporting to this committee to improve oversight of financial delivery?

REPLY by Councillor Davies (Vice-Chair of the Audit & Governance Committee):

As I said in my response to your previous question, this Committee has received regular updates on progress with the accounts closure process and is receiving a further update later on tonight's agenda.

To resolve the issues which have led to the difficulty closing the 2016/17 Accounts, the Council has invested in additional financial capacity as well as new systems to improve efficiency and governance going forward. These include a new financial asset register; a closure of accounts system and software to undertake the closing of the Collection Fund and Cash Flow Statement. Training and development plans have also been put in place to ensure the finance team are able to provide appropriate financial management support across the Council.

The work undertaken by the Council's internal audit team is key to providing assurance. In the last 12 months this Committee has raised the profile of internal audit and the importance of implementing audit recommendations by introducing regular reports which clearly track the implementation of audit recommendations. Service managers are also now required to attend this Committee to address "limited audit assurance" reports and explain the actions they are taking to achieve full compliance.

A recent example of where internal audit work has led to an improvement to the control framework is in quality assuring journal transfers and ensuring they are appropriately evidenced and that controls are working effectively.

As I've just outlined, the quality and clarity of reporting over the last 12 months has improved. We will of course continue to review this and make further improvements if necessary.

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QUESTION NO. 3

Colin Lee to ask the Chairman of the Audit & Governance Committee:

Accounts 2016/17

May I ask the Chair to express a view on the fact that the Council has refused the public an opportunity to re-inspect the 2016/17 books once there is clarity that the books and therefore the accounts for this period have been restored to order?

REPLY by Councillor Davies (Vice-Chair of the Audit & Governance Committee):

In accordance with the Accounts and Audit Regulations the Council has already allowed a 30 day period for the public to inspect the 2016/17 accounts and our external auditors will have taken into consideration any matters brought to their attention as they felt appropriate.

Providing a second period of inspection is not a legal requirement and would delay the sign off of the 2016/17 accounts still further and have a knock-on impact on work to finalise the 2017/18 and 2018/19 accounts.

The public will shortly have chance to inspect the 2017/18 accounts.