

# READING BOROUGH COUNCIL

## EXECUTIVE DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	23 JULY 2019		
TITLE:	FINAL ACCOUNTS UPDATE		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	BOROUGHWIDE
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### 1. EXECUTIVE SUMMARY

- 1.1 This report updates the Committee on progress with the completion of the Council's Final Accounts for 2016/17, 2017/18 and 2018/19.
- 1.2 At its meeting on 16th April the Committee delegated authority to the Chair of the Audit and Governance Committee to sign off the Council's 2016/17 accounts following consultation with the Council's S151 Officer. Those accounts will be signed off prior to this meeting.
- 1.3 EY, our external auditors will be presenting their 2016/17 Audit Results Report as a separate item on this agenda
- 1.4 The 2017/18 draft accounts are in the final stages of being completed and it is anticipated they will have been handed to the Council's external auditors; Ernst & Young (EY), by the date of this meeting and that the formal period of public inspection will begin week commencing 29<sup>th</sup> July 2019.
- 1.5 Officers will turn to completing the 2018/19 accounts once the 2017/18 accounts are completed. At this stage it is anticipated the 2018/19 draft accounts will be with EY and available for public inspection by early September 2019.

### 2. RECOMMENDED ACTION

- 2.1 To note that the 2016/17 accounts have now been signed off by the Council's external auditors and that the 2017/18 accounts will be available for the statutory 30 day public inspection period week commencing 29<sup>th</sup> July 2019.

## 2.2 To note the progress being made in closing the 2018/19 accounts.

### 3. BACKGROUND AND PROCESS

#### 2016/17 Accounts.

3.1 Significant work has been undertaken by officers and external audit to enable the sign off of the 2016/17 accounts. As members have previously been advised, this has not just required the provision of evidence and major re-working of 2016/17 transactions and balances but the re-stating of 2015/16 comparator balances. In particular:

- the re-valuation of a large number of the Council's fixed assets (as at March 2015; March 2016; and March 2017 - requiring 450 separate valuation certificates to be produced).
- both of the Council's Private Finance Initiative Schemes (Housing and Waste) being re-worked from inception (2005 and 2008 respectively) and;
- the reappportionment of revaluations and impairment of housing dwellings from 2008.

3.2 The table below indicates the scale of the changes made to the figures in the three core financial statements (Balance Sheet; Comprehensive Income & Expenditure Statement; and Cash Flow Statement):

	2015/16 Comparators		2016/17 Balances	
	Changes No. (%age)	Out of No.	Changes (%) No. (%age)	Out of No.
Balance Sheet	31 (56%)	55	40 (73%)	55
Income & Expenditure Statement	15 (56%)	27	25 (93%)	27
Cash Flow Statement	8 (80%)	10	9 (90%)	10

3.3 The changes largely impact on the carrying value of fixed assets which have increased by £22.9m for Total Assets offset by adjustments in Unusable Reserves. The balance on Usable Reserves has reduced by £147k and relates entirely to the Housing Revenue Account.

3.4 EY have undertaken an extensive internal peer review of their audit work and opinion and Public Sector Audit Appointments Ltd. have been consulted on the draft opinion.

3.5 In mid-2017 due to the lack of evidence to support several key balances, uncertainty around the valuation of fixed assets and the PFI accounting treatment, EY were unable to provide an opinion on the Council's accounts and issue an audit certificate. The work undertaken since then has enabled EY to certify the 2016/17 accounts, albeit with four qualifications.

- 3.6 Three of the qualifications relate to the fact it has not been possible to retrospectively provide sufficient evidence to allow EY to fully validate the debtor and creditor balances as at 31<sup>st</sup> March 2017. Any uncertainty in these balances has a corresponding impact on the Comprehensive Income and Expenditure Statement and thus represents a third qualification to the accounts. Finally, an error in the original actuarial calculation of the pension fund deficit (applicable and unadjusted in all other Berkshire authorities, but material for Reading) is also subject to a qualification. Further detail on the adjustments made to the accounts and the audit opinion can be found in the External Auditors Report which appears elsewhere on the agenda.

### **2017/18 Accounts**

- 3.7 Work on closing the 2017/18 accounts began in the spring of 2018, with the closure of the management accounts and a draft outturn position being reported to this Committee in August 2018.
- 3.8 As previously reported, it was necessary to commission fresh property valuations for the 2017/18 accounts, the majority of which were received at the end of January 2019. However, it was only possible to process the valuations once EY had confirmed they had completed the audit of the 2016/17 Asset Register.
- 3.9 Progress in compiling the accounts has been steady. A number of team members are undertaking tasks for the first time and, coupled with a desire to ensure accuracy and provide sufficient audit evidence and quality working papers; this has meant that progress has been slightly slower than originally expected.
- 3.10 In addition, as a result of issues that have arisen nationally during the audits of both 2017/18 and 2018/19 accounts officers have had to obtain further information and enhance the working papers. In particular, revised reports have been obtained from the Actuary to reflect the actual outturn of the Pension Fund and the potential impact of the recent Court of Appeal judgment regarding age discrimination (Lord Chancellor v McCloud & Others, December 2018).
- 3.11 At the time of writing it is anticipated that the draft 2017/18 accounts will be available for public inspection the week commencing the 29<sup>th</sup> July 2019. In compiling the 2017/18 accounts new accounts closure software has been implemented which will ensure supporting working papers are prepared and stored effectively and improve accessibility for external audit.

### **2018/19 Accounts**

- 3.12 The 2018/19 management accounts have been closed and an outturn position reported to the July 2019 Policy Committee. Once the draft

2017/18 accounts have been completed officers will move on to compiling the 2018/19 accounts.

- 3.13 As part of closing the 2018/19 accounts officers are planning to implement newly acquired fixed asset software and transfer the calculations associated with property valuations from the current historic spreadsheet arrangement.
- 3.14 The 2018/19 accounts should be available for audit and public inspection by early September 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 both the 2017/18 and the 2018/19 Accounts as they were not ready for inspection.
- 5.2 At the time of writing it is anticipated that the formal notice to open the 2017/18 draft accounts for the 30 working day inspection period will be on the website in the next few days. The inspection period for the 2018/19 Accounts is expected to commence almost immediately after the inspection period for 2017/18 closes.

#### **6. FINANCIAL IMPLICATIONS**

- 6.1 The Council has not yet received EY's final audit fee for the audit of the Council's 2016/17 accounts, but as previously reported EY indicated at the end of 2018 that their fee was likely to be at least £300,000 above the scale fee due to the additional work involved.
- 6.2 Public Sector Audit Appointments Limited, who manage and oversee the appointment of external auditors charge a percentage mark up as part of the auditors fee to cover their running cost. As their costs are recovered based on the original scale fees for authorities (£108,938 for Reading), the Council has written to them asking them to waive any mark up on EY's fees charged above this level.
- 6.3 The valuation work commissioned to enable the completion of the 2017/18 accounts has cost £27,000.