

**READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	18 JULY 2017	AGENDA ITEM:	12
TITLE:	ACCOUNTS 2016/17 & EXTERNAL AUDITOR UPDATE		
LEAD COUNCILLOR:	CLLR STEVENS	AREA COVERED:	CHAIR OF AUDIT & GOVERNANCE
SERVICE:	FINANCIAL	WARDS:	BOROUGHWIDE
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1. PURPOSE AND SUMMARY OF REPORT

- 1.1 The Council is required in accordance with the Accounts & Audit Regulations, to publish its draft accounts by 30 June, and the External Auditors, EY, have just started their review of the accounts. They are due to report their conclusions on the accounts and their value for money opinion to the Committee at the end of September. This report advises the committee of the publication of the accounts.
- 1.2 EY, have also provided a progress report for the committee, and this report introduces their report, and comments where necessary on the content.

2. RECOMMENDATION

- 2.1 Audit & Governance Committee are requested to note the publication of the 2016/17 Draft Accounts.
- 2.2 Audit & Governance Committee are requested to consider EY's progress report.

3. BACKGROUND & PROCESS

3.1 Financial Accounts

Following the end of the financial year, the Council's Finance Team have prepared draft financial accounts for 2016/17.

3.2 , Whilst as at 30 June 2017 the key statements (Income & Expenditure and Balance Sheet) were complete, some others (notably the cashflow statement) and some notes to the accounts were not completed as was intended, partly due to a simultaneous focus on the development of the Council's Medium Term Financial Strategy. Those gaps were addressed during the first week of July, and the final draft accounts that the auditor will audit has been published at <http://www.reading.gov.uk/statementofaccounts>.

3.3 The financial position at the year end is set out separately on this agenda in an updated version of the report that was presented to the Policy Committee on 12 June 2017.

3.4 EY Progress Report

EY's progress report is attached. The report explains that EY have met regularly with both the Interim Director of Finance and key finance staff, and much of their interim work has been completed.

3.5 However, as indicated in the report the EY work has identified some issues.

(a) Bank reconciliation - the Committee will be aware that the Council has had issues with its overall bank reconciliation process for some time. Whilst officers believe sufficient work has been done to establish that these issues are not linked to any loss of Council funds, it has not been possible to produce a fully balanced reconciliation. Considerable work has been undertaken to review processes, and a revised and more robust process is being put in place. The work to date has identified that the way some of the Council's systems work makes audit trails quite difficult to follow.. A revised, simpler, easier to follow process needs to be put in place and our focus is now on that .

(b) Control Account Reconciliations - the Council's discipline over control account reconciliations has been lacking. Much work has been undertaken to produce a schedule of reconciliations for monitoring and many are up to date. More work is now needed to complete all of the reconciliations and put in place arrangements to do the necessary monitoring.

(c) Journal Control - both Internal & External Audit have commented on the control over journals. Most journals are completed by staff within the Finance function, though some staff across the rest of the Council have some access to the journal system. Journals move money around the accounts, and during the closing of accounts a very large number of journals are carried out (some impacting both the year being closed and the following financial year). Following an Internal Audit report a process was agreed for the review of journals, focused on a high level verification (by the Head of Finance) of which staff were doing higher value journals, and a more detailed review of a sample

of journals by another team member. A key issue that arose during the year was that the report to facilitate the intended review was not produced. It has, however, recently been produced and reviewed. No issues that would materially impact the accounts have been identified; i.e. all journals with an aggregate value in excess of £50k appear to have been completed by an appropriate officer and the basic rationale for the journal appears reasonable. More detailed sampling checks are not yet complete. Looking ahead we also intend to do some work to consider alternative ways of improving control on a routine basis

- 3.6 It is recognised that, inasmuch as the above issues were present throughout 2016/17, EY have indicated that they will impact their testing processes and audit work.

4 CONTRIBUTION TO STRATEGIC AIMS

The preparation of the statement of accounts each year, shows the financial position of the Council, and is therefore closely linked to the strategic aim of financial stability.

5. FINANCIAL IMPLICATIONS

- 5.1 There is likely to be an additional audit fee reflecting the extra testing required by EY. In addition, some of the issues within the report will need to be addressed by taking on additional support to fix them.

6. LEGAL IMPLICATIONS

- 6.1 The process being followed is broadly in line with the Accounts & Audit Regulations, though for reasons indicated some work has been running slightly later than expected and required.

7. COMMUNITY ENGAGEMENT /EQUALITY IMPACT ASSESSMENT

- 7.1 None directly from the report.

8. BACKGROUND PAPERS

- 8.1 None.

Reading Borough Council

Audit and Governance Committee Progress Report

July 2017



Audit and Governance Committee
Reading Borough Council
Civic Offices
Bridge Street
Reading
Berkshire
RG1 2LU

18 July 2017

Dear Committee Member

Audit Progress Report

We are pleased to attach our audit progress report. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2016/17 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations. We will bring a progress report to each Committee except for those where we will bring the audit plan or the audit results report.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley
Executive Director
For and behalf of Ernst & Young LLP
United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Audit and Governance Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

2016/17 Audit

Audit Plan

We presented our 2016/17 our audit plan to the Audit and Governance Committee in January 2017. We will keep the plan under review and will inform you of any changes to our risk assessments and planned work. Our initial review of the controls confirms our initial assessments and we will take a substantive testing approach.

Meetings and progress to date

We continue to have regular meetings with key officers as part of our ongoing audit process.

We meet fortnightly with the Interim Director of Finance and his team. These meetings have proved beneficial and have kept us informed of the financial position of the Council and progress on the issues and recommendations in our 2015/16 Audit Results Report.

We are in the process of completing our interim work and are reporting our queries and findings on a tracker to Officers on a weekly basis. This enables both Officers and auditors to track progress on issues and queries.

Our interim work has identified a number of control deficiencies:

- Work has been underway on the 2016/17 bank reconciliation but we have not yet been given a version to review. We understand that there remain some reconciling items to resolve. We are due to receive and start of our review on 22 June 2017. We would expect the bank reconciliation to be completed and reviewed on a monthly basis;
- A number of the 2016/17 control accounts are still being worked on. We found that communication between council departments has allowed differences to remain and not being resolved on a timely basis. We would expect control accounts to be completed and reviewed on a monthly basis; and
- During 2016/17 there were no effective controls in place over the value, preparation and processing of journals. Journals are used to move financial information around the ledger and if they are not properly managed errors can arise. The impact of this is that we have no assurance over the accuracy and appropriateness of journals.

These deficiencies have been discussed with the Interim Director of Finance and his team.

We have also experienced delays in obtaining information from certain departments in the Council and this has delayed our work. This has been a particular issue for our payroll work.

The control deficiencies identified will have an impact on our work as we will not be able to rely on controls and will need to take a substantive approach. The nature of the deficiencies and the reduced level of materiality, reported in our Audit Plan, will require higher volumes of testing. We are preparing our testing plans and will discuss these with the Interim Director of Finance and additional work resulting from this and any fee impact. The delays in obtaining information and chasing up information requests also require additional work and will result in a fee impact.

We agreed a number of months ago that it would be efficient for the audit if we could have read only access to the Council's financial ledger system. Whilst this was readily agreed with the Finance Team we require some training to enable us to navigate around the system efficiently. There have been delays in us receiving this training and it was

delivered on 12 June 2017. The knowledge and read only access to the financial ledger system we now have should improve the effectiveness of the audit.

We have also been discussing with Internal Audit the fraud in Adult Social Care that was reported to the Audit & Governance Committee in April 2017, to help us understand the potential impact of the fraud on this item of account. We will discuss with the Interim Director of Finance if there is any impact on our testing strategy.

Our understanding of the IT environment is important in determining our overall audit strategy which is important in performing effective and efficient audits. Based on our work to date we haven't identified any risk factors that may give rise to risks of material statements in the financial statements. We followed up on our prior year findings related to the Academy system which were reported as part of our prior year IT management letter and have determined that most of the findings have been addressed.

As previously reported we issued recommendations under Section 24 Schedule 7 (2) of the Local Audit and Accountability Act 2014 on 2 February 2017. We are monitoring the action that the Council is taking in response to our recommendations

We have started our Housing Benefit (HB) work and the initial workbooks have been prepared by the Council and we are now reviewing them. For items that we have discussed and agreed with the HB Team that require additional testing we have provided the workbooks for completion. We will report progress on the claim as part of our regular meetings with Officers.

Audit and Governance Committee

If members of the Audit and Governance Committee have any particular issues they want to discuss with us we would be pleased to discuss these with you.

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2016/17 Audit and Governance Committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	April 2016	Completed
Risk assessment and setting of scope of audit	Dec 2016 - January 2017	Audit Plan	January 2017	Completed
Testing of routine processes and controls	Feb – April 2017	Progress Report	April 2017	Completed
Update review of progress	May – July 2017	Progress Report	July 17	Completed
Year-end audit	July - September 2017	Audit results report to those charged with governance. Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources). Whole of Government Accounts Submission to NAO based on their group audit instructions. Audit Completion certificate.	September 2017	Not yet due Work is planned to start the week commencing 17 July and aim to complete our audit work by 18 August 2017.
Reporting	October 2017	Annual Audit letter	October 2017	Not yet due
Housing benefit	June - October 2017	Certification of claim	November 2017	Not yet due
Grant claims report	December 2017	Grant claims report	December 2017	Not yet due

EY | Assurance | Tax | Transactions | Advisory

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