

READING BOROUGH COUNCIL

REPORT BY STRATEGIC DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	28 SEPTEMBER 2017	AGENDA ITEM:	4(a)
TITLE:	ACCOUNTS 2016/17		
LEAD COUNCILLOR:	Councillor Lovelock	PORTFOLIO:	LEADERSHIP
SERVICE:	FINANCE	WARDS:	N/A
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**1. EXECUTIVE SUMMARY**

- 1.1 The Committee was due to receive both the accounts for 2016/17 and a report on those accounts from the Council's external auditors, EY. It has not been possible to deliver either due to significant challenges in the preparation of the accounts, which has led to me, as the Council's Director of Finance, at this stage not being able to sign off the accounts as a true and fair view of the Council's finances. This consequently means that EY are unable to issue an audit opinion.
- 1.2 This report then goes on to set out the ongoing and intended actions by officers of the Council to improve the quality of financial processes and systems in order to deliver a true and fair view in the future.

**2. RECOMMENDED ACTION**

- 2.1 The Committee is requested to consider the current and future actions set out in this report and indicate their support for them, amended as required.

**3. BACKGROUND AND PROCESS**

- 3.1 It is very disappointing that it is not possible to either sign off the Council's accounts for 2016/17, or receive an appropriate audit opinion on them. This is because of a range of fundamental problems in the preparation of the accounts. In particular, it has not been possible to offer adequate evidence to support many of the journal transactions undertaken during the closedown process. Without appropriate evidence to support these transactions, neither I nor EY are able to verify their authenticity. There is

no suggestion of any fraud, but it is of course essential that each journal transaction is now reviewed in order to ensure its robustness as a foundation of the 2016/17 accounts. It is for this reason, mainly, that it is not possible to sign off the accounts as representing a true and fair view of the Council's finances for 2016/17. Other issues also need to be resolved in order to re-establish the technical foundations of the Council's accounts. The 2016/17 accounts will, in due course, be revised, signed off and audited, probably alongside the accounts for 2017/18.

- 3.2 It is therefore now essential that we react at pace and with clarity to address the improvements needed to our systems, processes and skills to have the maximum chance of securing unqualified accounts for 2017/18. It is, however, acknowledged that to move from the current situation to unqualified accounts within this accounting year is a tough challenge, but there is strong commitment within the Finance Team to achieving this outcome.
- 3.3 Over recent months it had become clear that the Finance Team has struggled with clarity of roles, inadequate capacity and hence a lack of capability in some areas, especially around technical accounting that is necessary to drive standards and deliver a competent set of accounts. The Council was fortunate to find a thoroughly experienced and competent interim Chief Accountant late on in the closedown process, but could not secure other resources to support him.
- 3.4 In addition to seeking resources, other actions have been initiated since April 2017 to seek to deliver the 2016/17 closedown and to improve processes in 2017/18. The table below briefly sets out the actions underway or planned at the current time.

No.	Action	Intended Impact	Underway/ Future
1	Fundamental restructure of the Finance Function, to fit with the Chief Executive's proposals for strengthening Corporate Support Services	Improve clarity of roles, capability and capacity within the Function to ensure that both financial and management accounting activity, along with technical tasks, are carried out correctly	U - workshops completed
2	Health check of the Fusion (the main financial ledger) system	Ensure that the system is working as intended, and particularly that the set-up is efficient so maximising system tasks and reducing manual tasks	U - tender stage
3	Update of the Hyperion budget	Improvement so that it can	U

	system	deliver staffing budgets and monitoring more effectively than now	
4	Recruitment of additional interim technical accountancy capacity	To work with interim Chief Accountant to improve the accounting processes within the wider organisation (e.g. Collection fund accounting)	U
5	Recruitment of permanent Chief Accountant	Seasoned professional required to drive up technical accounting standards and embed them throughout Finance and elsewhere as needed. Interviews took place on 20 September and an offer has been made	U
6	Implement new year-end software designed by CIPFA with EY	Implementing the system (in November) will both drive improvements in process and structure of the accounts, and it will enable easier production of the accounts in a tighter timeframe next year	U
7	Correct the deficiencies in the 2016/17 accounts	To ensure that the accounts are accurate, reflect correctly the outturn position, are a sound basis for 2017/18 accounts and present a true and fair view of the Council's finances	U
7	Correct deficiencies in the 2017/18 accounts to date	To ensure that the accounts, when produced, are accurate and will present a true and fair view of the Council's finances for 2017/18	F
8	Implement new processes to ensure that inadequate practice identified in 2016/17 is amended for the later part of 2017/18	To improve the standard of accounting practice as a foundation for the remainder of 2017/18 and beyond	F with some U
9	Interim Directorate Accountant for DACHS secured for the remainder of the financial year	Required to improve management accounting and support to the directorate in controlling budgets in	U - starts 2 Oct

		challenging circumstances	
10	Prepare a detailed action plan for corrections and learning based upon lessons learned from the 2016/17 audit	It is essential that there is a well-thought through plan to address the deficiencies of 2016/17 in readiness to close the accounts for 2017/18 (in a shorter time). This will be prepared after the Interim Chief Accountant has completed the adjustments to the 2016/17 accounts ready for publication	F

3.5 Due to the difficulties in attempting to prepare the accounts and have them audited, this report has been issued late. Further work is ongoing with EY to ensure that our proposed actions are complete and will address the deficiencies in the 2016/17 accounts to ensure that they are not repeated in 2017/18. Hence a further detailed action plan will be developed so that it will be clearer if any additional actions and/or resources are required in order to address the challenges faced this year. The Committee will be updated on progress at each meeting.