



## **Statement of Accounts 2015/16 - Progress Report**

### **SUMMARY**

- 1.1 This report updates the Committee on the progress of the 2015/16 Statement of Accounts and should be read in conjunction with the Interim Annual Governance Statement and the External Audit Progress Report on the same agenda.
- 1.2 As reported to the July 2016 Audit and Accounts meeting, the Committee were updated on the delay to the draft statement. This was due to be published by 30 June 2016, but was not published until 25 July 2016.
- 1.3 External Audit – Ernst & Young (EY) – commenced their audit prior to the draft statement being released and are still in the progress of completing their audit.
- 1.4 The draft statement was late due to delays in finalising the draft valuation figures to be used in the accounts. The final statement is delayed primarily due to the same reason.
- 1.5 As the statutory deadline of 30 September 2016 for finalising the accounts will not be met, the Committee is not receiving a final statement at this meeting. Following the conclusion of the audit, and EY's final report, a further meeting will be convened and the accounts will be considered for sign off.

### **RECOMMENDATION**

- 2.1 To note the progress on the 2015/15 Statement of Accounts

### **REASONS FOR RECOMMENDATION**

- 3.1 The Accounts & Audit Regulations 2015 – Part 10 (2) require, in the absence of signing off the accounts by 30 September 2016, that the authority submit the final accounts as soon as reasonably practicable after the receipt of the final audit report.

<b>SUPPORTING INFORMATION</b>
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#### **4 Background**

- 4.1 We have a new relationship with EY as our external auditors. It is evident from discussions and from several audit findings that EY are taking time to understand our processes for managing the accounts production and equally, the council needs to fully understand the requirements to provide robust evidence to support the audit. We will continue to improve on this through the audit term.
- 4.2 As reported in the AGS, we have had difficulties in justifying our asset valuations. This is considered further in section 5. This is an on-going journey which, by the very nature of asset valuations may take a number of years to fully iron out. We do hope however to finalise our 2015/16 work in the short term and to take larger strides for the 2016/17 valuation process and 2016/17 accounts.
- 4.3 This is an unfamiliar position for both the Council and EY to find themselves in, however both parties have felt it is important that the Committee receive a detailed update to keep them informed of the situation. We continue to work closely with EY to progress the finalisation of the 2015/16 accounts. We are also mindful on how this may affect early work on the 2016/17 accounts, in particular around valuations.
- 4.4 Significant areas to bring to the committees attention are reported below.

#### **5 Valuations**

- 5.1 Governance issues were highlighted by the Council in January 2016, and have been further confirmed by the work undertaken by EY. Valuation work had been completed for inclusion in the 2015/16 accounts but was not of a reliable nature and therefore had to be fully revalued. The Council has taken this governance weakness seriously and invested in rectifying the issue, which will take some time to fully address.
- 5.2 A significant amount of re-work, and a detailed review of valuation processes was undertaken between February and July. This led to the delay in submitting the draft statement. EY's technical valuations team have recognised the significant improvements made over the past 6-8 months but there are still areas to improve on, including data integrity.
- 5.3 At the time of producing the draft statement a number of valuation figures had still to be fully validated. This was recognised at the time of presenting the draft statement for audit and was likely to change as further validation was undertaken. This will manifest in a number of audit differences which are reported by EY and will need adjusting in the final statement.
- 5.4 EY have undertaken a series of audit test on the valuation process and have identified a number of weaknesses. These are reported in EY's Progress Report.
- 5.5 Further work is underway by the valuation team to provide more evidence and assurance to EY before they recommence their audit testing.

**6 Other Areas**

- 6.1 As the audit has not yet concluded, there are a number of areas highlighted in EY’s Progress Report which are still in discussion between management and EY. They are therefore subject to change. Some areas still require evaluation and others need to be concluded through further dialogue. These will be completed and addressed in the final statement and within EY’s final report. Examples include:
  - NNDR appeals
  - Council Tax and NNDR doubtful debt provisions
- 6.2 A number of management responses have been provided to specific points within the Progress Report. Committee are asked to consider these responses. More responses may be required when the final report is received.
- 6.3 There are also a number of value changes to be considered between the draft and final statement. These are referred to in Appendix A of the EY Progress Report and are classed as ‘uncorrected audit differences’. We are still in dialogue with EY regarding some of the interpretations in these areas and therefore the values may be subject to change. We hope to resolve these soon and we will respond to any remaining changes formally in the final report.

**7 Required Improvements**

- 7.1 We have already agreed to a ‘post-audit’ review with EY. Greater clarity is required by management of the expectations of EY in providing supporting evidence and robust analysis to support our accounts. This is something we were unfamiliar with and were not fully prepared for. This may not be a quick fix but we will continue to develop our collecting understanding over subsequent audits. Regular updates will be prepared for the Committee.

**OTHER OPTIONS CONSIDERED**

- 5.1 None - the Accounts and Audit Regulations 2015, require a final set of accounts to be produced.

**This report has been approved by the following officers:**

<b>Legal officer</b> <b>Financial officer</b> <b>Human Resources officer</b> <b>Estates/Property officer</b> <b>Service Director(s)</b> <b>Other(s)</b>	Janie Berry, Paul Robinson
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<b>For more information contact:</b>  <b>Background papers:</b>	Martyn Marples 01332 643377 martyn.marples@derby.gov.uk  Draft External Audit Progress Report – on this agenda AGS – on this agenda
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<b>List of appendices:</b>	Appendix 1 – Implications
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<b>IMPLICATIONS</b>
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**Financial and Value for Money**

1.1 The cost of additional audit work will be reported in the final external audit report.

**Legal**

2.1 None.

**Personnel**

3.1 Further resources will need to be deployed to finalise the 2015/16 audit.

**IT**

4.1 IT issues are reported in the EY Progress Report

**Equalities Impact**

5.1 None.

**Health and Safety**

6.1 None.

**Environmental Sustainability**

7.1 None.

**Property and Asset Management**

8.1 As set out in the report

**Risk Management**

9.1 We continue to work closely with EY to mitigate the risk associated with the late publication of the 2015/16 accounts.