

AUDIT COMMITTEE – 29 MARCH 2022

PART I – DELEGATED

5. Statement of Accounts (DoF)

1 Summary

- 1.1 This report sets out the latest position for the finalisation and audit of the Statement of Accounts for 2019/20 and 2020/21 and the preparation for the production of the Statement of Accounts for 2021/22.
- 1.2 The report also sets out the process for the setting and adoption of Accounting Policies for 2021/22.

2 Details

2.1 Statement of Accounts 2019/20

- 2.1.1 The valuation of land and buildings is identified as an inherent risk within the External Auditor's audit plan for 2019/20, as presented to Audit Committee in March 2020. This is because material judgemental inputs and estimation techniques are required to calculate the year end balances that are recorded in the balance sheet. Valuations are undertaken on behalf of the Council by external specialists and the methodology and assumptions are reviewed as part of the annual audit process.
- 2.1.2 The valuations in the 2019/20 Statement of Accounts have been subject to increased scrutiny due to the impact of COVID-19. The timing of the first national lockdown, which crossed the year end, created 'material uncertainty' in the valuations at 31 March 2020. This is because it was difficult for valuers to make assumptions about future cashflows and economic benefits arising from the ownership and use of assets in the uncertain environment created by the pandemic.
- 2.1.3 The detailed work on the Fixed Asset Register identified a number of required changes including a review of the classification of assets and changes to valuation methodology for some assets. Significant progress has been made in agreeing the revised values and classifications for fixed assets. A revised Fixed Asset Register is currently under review by the External Auditors. Once this review is completed a revised Statement of Accounts will be compiled and submitted to the auditors. It is anticipated that this work will be completed during April to enable the 2019/20 audit to be completed in late spring.
- 2.1.4 The National Audit Office (NAO) has recently identified a national issue in relation to the valuation of Infrastructure assets on local authority balance sheets. This may delay the conclusion of the audit. Officers are currently working with the External Auditors to agree how this can be managed. An update on this item will be provided at the meeting.

2.2 Statement of Accounts 2020/21

- 2.2.1 The draft Statement of Accounts for 2020/21 were published by 31 July in line with statutory timetable for public inspection. These accounts will need to be updated to reflect the final balances agreed in the 2019/20 accounts. This will be done as upon

completion of the 2019/20 audit and a revised set of accounts will be provided to the External Auditors for consideration.

2.2.2 Audit resource is expected to be available in June which should enable Audit Committee to receive the final accounts and the auditors' report at least in draft form at the meeting in July.

2.2.3 The audit situation across the local government sector in England is fairly bleak. The statutory deadline for the publication of audited accounts was extended from 31 July 2021 to 30 September 2021. Only 9% of local authorities were able to achieve this deadline. The figure had increased to 48% by 28 February but stands at 32% for district councils. The issue raised by the NAO is likely to add further delay.

2.3 Statement of Accounts 2021/22

2.3.1 The Department for Levelling Up, Communities and Housing (DLUCH) has recognised that it will take time for audit firms and local authorities to catch up and the statutory deadline for the publication of audited accounts for 2021/22 has already been extended to 30 November 2022.

2.3.2 In light of the challenges faced within the local government sector, the Chartered Institute for Public Finance and Accountancy (CIPFA) has also undertaken a consultation on measures intended to speed up the accounts preparation and audit process. The introduction to the consultation also noted that a significant number of audits remain outstanding from 2019/20. This is understood to relate to around 11% of all local authority audits, increasing to 14% when considering only district council audits.

2.3.3 CIPFA has stated that they are seeking to implement 'short-term pragmatic interventions'. Importantly, the measures must be implementable before year end in order to deliver a benefit to the 2021/22 accounts preparation and audit process.

2.3.4 CIPFA has consulted on two specific measures:

- Pausing the requirements for professional valuation of operational property, plant and equipment assets in the 2021/22 Code and (at least) the 2022/23 Code, with the possibility of mitigating the effect of this through the application of centrally determined indices.
- Deferring the implementation of IFRS 16 Leases, which is currently set to be implemented in the 2022/23 Code, thereby for a period freeing up preparer and auditor time relating to the preparation of opening balances and auditor verification around transition.

2.3.5 Officers are supportive of the measures proposed by CIPFA. The pausing of valuations for operational property, plant and equipment in particular would simplify one of the areas of audit focus where the authority is reliant on external experts. Given the necessary timelines it is anticipated that the outcome of the consultation will be known by 31 March 2022.

2.4 Significant Accounting Policies 2021/22

- 2.4.1 The Council's Statement of Accounts is prepared in accordance the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Council is required to adopt accounting policies which describe how the Council has interpreted and applied the Code.
- 2.4.2 The Code defines Accounting Policies as 'the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements.'
- 2.4.3 The significant accounting policies adopted by the Council are disclosed within note 1 to the Core Financial Statements in the Statement of Accounts, 'Accounting Policies'.
- 2.4.4 The Code prescribes that 'authorities shall apply the objective, underlying assumption and qualitative characteristics of useful financial information, in the selection and application of accounting policies and estimation techniques.'
- 2.4.5 The Code provides a detailed framework within which accounting policies must be set:
- When the Code specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Code. Those policies need not be applied when the effect of applying them is immaterial.
 - Where the Code does not specifically apply to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:
 - a) relevant to the decision-making needs of users, and
 - b) reliable, in that the financial statements:
 - i) represent faithfully the financial position, financial performance and cash flows of the authority
 - ii) reflect the economic substance of transactions, other events and conditions and not merely the legal form
 - iii) are neutral, i.e. free from bias
 - iv) are prudent, and
 - v) are complete in all material respects.
 - In making the judgement management shall refer to, and consider the applicability of, the Code requirements dealing with similar and related issues. Management may also consider the most recent pronouncements of standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the requirements of the Code.
 - An authority shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless the Code specifically requires or permits different treatment.
 - An authority shall change an accounting policy only if the change is required by the Code or results in the financial statements providing

reliable and more relevant information about the effects of transactions, other events and conditions on the authority's financial position, financial performance or cash flows.

- Where an authority changes an accounting policy, it shall apply the changes retrospectively unless the Code specifies transitional provisions that shall be followed. A change in accounting policy shall be applied retrospectively by adjusting the opening balance of each affected component of net worth for the earliest period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied, except to the extent that it is impracticable to so do. Approval of Accounting Policies

- 2.4.6 The code states that the Chief Finance Officer is responsible for selecting 'suitable' accounting policies and ensuring that they are applied consistently in the preparation of the statement of accounts. The Chief Finance Officer (Director of Finance) has approved Note 1. Accounting Policies for 2021/22 as set out in Appendix 1. All significant accounting policies have been selected with reference to the Code.
- 2.4.7 The Council's auditors will review the adopted accounting policies as part of the audit of the statement of accounts. There is also an expectation that the auditors will be able to evidence that the accounting policies have been approved by the Audit Committee in its capacity as 'Those Charged with Governance'. The Audit Committee is therefore asked to ratify the accounting policies as set out in Appendix 1.
- 2.4.8 There are no significant changes to the accounting policies adopted in prior years. However, there may be changes required to the valuation methodology of PPE assets if the proposals set out in the CIPFA consultation are adopted.

3 Policy/Budget Reference and Implications

- 3.1 The recommendations in this report are within the Council's agreed policy and budgets.

4 Financial, Legal, Equal Opportunities, Staffing, Environmental, Community Safety, Public Health, Customer Services Centre, Communications & Website, Risk Management and Health & Safety Implications

- 4.1 None specific.

5 Recommendation

- 5.1 Ratify the draft Accounting Policies for 2021/22 (Appendix 1)

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Data Quality

Data sources: None used in the preparation of the report

Background Papers

None

APPENDICES / ATTACHMENTS

Appendix 1 – Significant Accounting Policies 2021/22