

AUDIT COMMITTEE – 26 JULY 2022

PART I – DELEGATED

6. STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT (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, 2020/21 and 2021/22 and seeks approval of the 2019/20 accounts with delegation to the Director of Finance to agree final adjustments.

1.2 The report also seeks approval for the Annual Governance Statement 2021/22.

2 Detail

2.1 Statement of Accounts 2019/20

2.1.1 The Statement of Accounts 2019/20 will be published as Appendix 1 to this report. Since the last report to the audit committee in March, significant progress has been made towards concluding the audit and agreed changes are reflected in this latest version of the accounts. Delegation is sought from the Committee for any final changes to be made by the Director of Finance and for the Chair of the Committee to sign the accounts. This will enable the accounts to be signed off as soon as the audit is concluded and in advance of the next Committee meeting in September.

2.1.2 The main item outstanding is the finalisation of the revision of the accounting treatment for the South Oxhey Initiative. The accounting treatment was originally agreed with the external auditors during the 2017/18 audit. This resulted in the land acquired being treated as inventory and the recognition of a debtor in relation to the receipts due to the authority under the arrangement. The Council's external auditors have subsequently revised their view; primarily because the transactions are of a capital nature and the original accounting treatment did not accurately reflect this.

2.1.3 The arrangement will now be accounted for as a finance lease with the Council acting as lessor and the receipts received by the Council will be treated as capital receipts. The revised accounting treatment requires the Council to obtain additional specialist valuations to complete the necessary calculations. These have been commissioned but have not been received in time for inclusion in the latest draft.

2.1.4 The detailed audit focus on the Fixed Asset Register has resulted in reclassifications and revaluation of a number of assets in addition to the change in treatment for the South Oxhey Initiative. In order to achieve the correct prior year comparator figures for 2018/19 this has resulted in the calculations being reworked back to 2017/18. The changes meet the definition of a Prior Year Adjustment.

2.1.5 The Prior Year Adjustment requires the External Auditors to complete additional due diligence and the revisions will undergo an internal consultation process. Other outstanding items include the conclusion of the Going Concern assessment, which covers the period of 12 months from the date of signing the accounts, and the conclusion of testing in relation to leases.

- 2.1.6 Auditing standards require the External Auditors to obtain representations from management on certain matters material to their audit opinion. This is known as the Letter of Representation. The Audit Committee is required to consider and approve the letter of representation before it is signed by the Director of Finance and the Chair of the Committee.
- 2.1.7 A Draft Letter of Representation is at Appendix 2. The draft letter may change to reflect the outcome of the ongoing audit work. Therefore, the committee is asked to agree that the Director of Finance, in consultation with the Chair of the Committee, can make any further changes to the letter of representation that may arise during completion of the audit.
- 2.1.8 The Letter of Representation must set out any unadjusted audit differences where management has chosen not to amend the statements for audit findings and the rationale for not doing so. At this stage, it is not anticipated that there will be any unadjusted audit difference as differences identified to date will be amended in the final version of the accounts.

2.2 Statement of Accounts 2020/21

- 2.2.1 The draft Statement of Accounts for 2020/21 were published by 31 July 2021 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. The latest version will also be updated on the Council's website.
- 2.2.2 The audit of the 2020/21 accounts is schedule to commence on 17 October 2022. It is anticipated that the 2020/21 Audit Plan will be presented to the Committee in September.

2.3 Statement of Accounts 2021/22

- 2.3.1 The Accounts and Audit Regulations 2015 set out the statutory timetable for the publication of the Council's unaudited accounts and completion of the external audit. The amended regulations require that draft accounts are published by 31 July 2022 to enable the period of public inspection to commence no later than 1 August 2022.
- 2.3.2 The Draft Statement of Accounts for 2021/22 will be authorised for issue by the Director of Finance by 31 July 2022. A link to the draft accounts will be provided to members of the committee.
- 2.3.3 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 been extended to 30 November 2022.
- 2.3.4 It is anticipated that the audit of the 2021/22 will follow on immediately from the conclusion of the 2020/21 audit. Estimated completion is therefore February 2023. This is outside of the statutory timeframe, however, this will bring the Council's accounts and audit back within the statutory framework for 2022/23.

2.4 Annual Governance Statement 2021/22

- 2.4.1 Local authorities are required to prepare an Annual Governance Statement (AGS) to be transparent about their compliance with good governance principles. This includes reporting on how they have monitored and evaluated the effectiveness of their governance arrangements in the previous year and setting out any planned changes in the coming period.
- 2.4.2 The AGS must be published alongside the Statement of Accounts for the period of Public Inspection.
- 2.4.3 The AGS is approved by the Chief Executive and the Leader of the Council. The Audit Committee has the responsibility of reviewing the Council's AGS each year and considering whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 2.4.4 The AGS follows the principles and best practice advocated by CIPFA (The Chartered Institute of Public Finance and Accounting), the body which advises on good governance.
- 2.4.5 The AGS for 2021/22 is published at Appendix 3. It includes an outline of the Council's governance framework, a review of the effectiveness of the arrangements, and a conclusion in relation to the effectiveness.
- 2.4.6 Based on the information set out in the AGS, the following conclusion is included:
- "It is our opinion that the Council's governance arrangements in 2021/22 were sound and provide a robust platform for achieving the Council's priorities and challenges in 2022/23. It is our opinion that this has remained the case during the COVID-19 pandemic; and that despite the challenges posed by this, the Council's governance in dealing with the pandemic and our ability to maintain sound governance during the outbreak, has been effective."

2.5 Financial Management Code of Practice

- 2.5.1 The CIPFA Financial Management Code of Practice (FM Code) was published in November 2019. It sets out the 'gold standard' for financial management arrangements in local government. The FM Code does not have statutory status but brings together best practice and statutory guidance including the Prudential Code for Capital Finance in Local Authorities. Local authorities were expected to comply with the FM Code from 2021/22.
- 2.5.2 The Redmond Review into the effectiveness of Local Government audit suggested that government could consider giving the FM Code statutory status and bringing compliance with code into the remit of the external audit regime. This remains under consideration by DLUCH. In the meantime, CIPFA have mandated local authorities to disclose compliance with the FM Code in the AGS and identify any outstanding areas for improvement or change.
- 2.5.3 To meet this requirement, a self-assessment against the FM Code for 2021/22 has been completed and is included as Appendix 2 to the AGS. All areas covered by the FM Code are rated green with the exception of the assessment against external

reporting requirements in relation to the completion of the annual Statement of Accounts. This is rated amber in recognition that the delay in completing the audit of the accounts for 2019/20 and 2020/21 has impacted on the timeliness of external reporting. As set out in this report, there is a clear plan in place with the Council's external auditors to bring this back on track by April 2023.

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

The Audit Committee is recommended to:

In relation to the 2019/20 Statement of Accounts:

- Approve the Statement of Accounts for 2019/20 subject to any final adjustments by the Section 151 Officer (Director of Finance)
- Agree that the Section 151 Officer be delegated to finalise the Statement of Accounts for 2019/20 in consultation with the Chair of the Audit Committee
- Agree that the Committee authorise and instruct the Chair to sign the Statement of Accounts for 2019/20 once finalised and signed by the Section 151 Officer to confirm that the Statement of Accounts presents a true and fair view of:
 - the financial position of the authority at the end of the financial year to which it relates; and
 - that authority's income and expenditure for that financial year
- Approve the Letter of Representation for 2019/20 and agree to delegate to the Section 151 Officer and Chair of the Audit Committee to make any necessary changes resulting from the conclusion of the audit.

In relation to the 2021/22 Statement of Accounts:

- approve the Annual Governance Statement 2021/22
- note that the Director of Finance will authorise for issue a Draft Statement of Accounts 2021/22 for public inspection by 31 July 2022

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Data Quality

Data sources: None used in the preparation of the report

Background Papers

None

APPENDICES / ATTACHMENTS

Appendix 1 – Statement of Accounts 2019/20 (published as a late item)

Appendix 2 – Letter of Representation 2019/20

Appendix 3 – Annual Governance Statement 2021/22