

Part A

Report to: **Audit Committee**

Date of meeting: **Thursday, 10 March 2022**

Report author: **Head of Finance**

Title: **Statement of Accounts**

1.0 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.

2.0 Risks

2.1

Nature of risk	Consequence	Suggested Control Measures	Response (treat, tolerate, terminate or transfer)	Risk Rating (combination of severity and likelihood)
The Council's Statement of Accounts are not approved and audited within the statutory timeframe	Failure to comply with statutory timeline impacts on audit opinion	Proactive liaison with the external audit team	Tolerate	4
Changes to accounting policies are not properly reflected in the Statement of Accounts	Material mis-statement or qualification	Review accounting policies annually. Maintain awareness of future changes	Treat	4
Changes to accounting policies have an impact on the revenue budget or capital programme.	Impact on reserves, especially where not identified at budget setting.	Maintain awareness of future changes	Tolerate	6

3.0 Recommendations

In relation to the 2019/20 Statement of Accounts Audit Committee are recommended to:

- 3.1 Approve the Statement of Accounts for 2019/20 subject to any final adjustments by the Section 151 Officer (Director of Finance)
- 3.2 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
- 3.3 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:
 - (a) the financial position of the authority at the end of the financial year to which it relates; and
 - (b) that authority's income and expenditure for that financial year
- 3.4 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 Audit Committee are recommended to:

- 3.5 Ratify the draft Accounting Policies for 2021/22

Further information:

Hannah Doney

hannah.doney@threerivers.gov.uk

Report approved by: Alison Scott, Shared Director of Finance

4.0 Detailed proposal

4.1 Statement of Accounts 2019/20

- 4.1.1 The Statement of Accounts 2019/20 are attached to this report at Appendix 1. Since the last report to the audit committee in November significant progress has been made towards concluding the audit. 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 well in advance of the next Committee meeting in July.

- 4.1.2 As previously reported to the Committee, the detailed audit focus on the Fixed Asset Register has resulted in reclassifications and revaluation of a number of assets. 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 and the changes are disclosed in Note 4 to the accounts.
- 4.1.3 The Prior Year Adjustment requires the External Auditors to complete additional due diligence and the revisions are undergoing 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. It is anticipated that an update can be provided on the progress of these areas at the meeting.
- 4.1.4 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.
- 4.1.5 A Draft Letter of Representation is at Appendix 2. The draft letters 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 letters of representation that may arise during completion of the audit.

4.2 Statement of Accounts 2020/21

- 4.2.1 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.
- 4.2.2 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.
- 4.2.3 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 40% by 31 December.

4.3 Statement of Accounts 2021/22

- 4.3.1 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.
- 4.3.2 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 70 local authority audits.
- 4.3.3 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.
- 4.3.4 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.
- 4.3.5 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.

4.4 Significant Accounting Policies 2021/22

- 4.4.1 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.

- 4.4.2 The Code defines Accounting Policies as ‘the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements.’
- 4.4.3 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 – Single Entity and Group Accounts’.
- 4.4.4 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.’
- 4.4.5 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

- 4.4.6. 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 3. All significant accounting policies have been selected with reference to the Code.
- 4.4.7 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 3.
- 4.4.8 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.

5.0 Implications

5.1 Financial

- 5.1.1 The Shared Director of Finance comments that there are no direct financial implications arising from this report.

5.2 Legal Issues (Monitoring Officer)

- 5.2.1 The Group Head of Democracy and Governance comments that there are no direct legal implications arising from this report.

5.3 Equalities, Human Rights and Data Protection

- 5.3.1 Under s149 (1) of the Equality Act the council must have due regard, in the exercise of its functions, to the need to –

- eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Act
- advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share them
- foster good relations between persons who share relevant protected characteristics and persons who do not share them.

Having had regard to the council's obligations under s149, it is considered that there are no implications arising from this report.

Having had regard to the council's obligations under the General Data Protection Regulation (GDPR) 2018, it is considered that officers are not required to undertake a Data Processing Impact Assessment (DPIA) for this report.

5.4 Staffing

5.4.1 There are no staffing implications arising from this report.

5.5 Accommodation

5.5.1 There are no accommodation implications arising from this report.

5.6 Community Safety/Crime and Disorder

5.6.1 There are no community safety or crime and disorder implications arising from this report.

5.7 Sustainability

5.7.1 There are no sustainability implications arising from this report.

Appendices

- Appendix 1 Statement of Accounts 2019/20
- Appendix 2 Draft Letter of Representation 2019/20
- Appendix 3 Draft Accounting Policies 2021/22

Background papers

No papers were used in the preparation of this report.