

<b>Report of:</b>	Director of Finance (S151 Officer)
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<b>Submitted to:</b>	Corporate Affairs and Audit Committee
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<b>Date:</b>	22 July 2022
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<b>Title:</b>	Approval of the Audited Statement of Accounts – 2020/21
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<b>Report for:</b>	Decision
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<b>Status:</b>	Public
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<b>Strategic priority:</b>	Choose an item.
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<b>Key decision:</b>	Not applicable
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<b>Why:</b>	Not applicable
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<b>Urgent:</b>	Not applicable
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<b>Why:</b>	
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### **Executive summary**

This report recommends the approval of the Audited Statement of Accounts for the 2020/21 financial year, following the external audit of the accounts by our auditors, Ernst & Young. The approval of the accounts is a statutory requirement under the Accounts and Audit regulations 2015.

There are a couple of issues on the audit that still are outstanding and that will be resolved at a future date. These are outlined within the report and the recommendations so the approval by the Committee is in principle at this stage, pending the resolution of these items. Delegated responsibility will be given to the Council's Section 151 Officer to make any amendments to the audited accounts as and when needed.

## **Purpose**

1. The purpose of the report is for Members to approve the Council's Statement of Accounts for the 2020/21 financial year following completion of the external audit process and in line with statutory requirements.
2. Given the various issues on Governance presented in the external auditors – audit results report as part of their value for money assessment, plus still awaiting an update from CIPFA (Chartered Institute of Public Finance & Accountancy) on their consultation on highways infrastructure assets, the approval will be in principle at this stage. A number of subsequent actions will be required to close the approval/external audit process around the accounts. These are highlighted in the recommendations to this report.

## **Background and relevant information**

3. The draft Statement of Accounts for 2020/21 was presented to this Committee on 5<sup>th</sup> August 2021 which gave Members an understanding of the Council's financial position, performance and cash flows at 31<sup>st</sup> March 2021 and how it had performed against its revenue and capital budget plans. Significant issues included within the financial statements were also discussed for information at that stage.
4. Further updates have been given to the Committee on progress during the audit, principally on the 31<sup>st</sup> March 2022 and 9<sup>th</sup> June 2022. These explained the various delays experienced so far on the audit of the accounts and why statutory date had not been met. Members will recall that in order to complete the process an audit opinion is required from the external auditor (EY) in relation to both a true and fair view on the financial statements presented, plus on the value for money arrangements put in place by the Council.
5. The 2020/21 audit has been a significant undertaking for many local authorities. CIPFA reported that at the statutory date for these accounts of 30<sup>th</sup> September 2021 only 9% of English local authorities had completed their external audit. Although this has improved to 40% by 31<sup>st</sup> January 2022, it shows the scale of challenge for Councils given the impact of the Covid pandemic on their financial positions and transactions.
6. In addition there has been new regulations introduced on local audit firms following a number of high profile corporate failures in 2018/19 which were influenced by inaccurate financial reporting. This has resulted in more emphasis on the concept of a local authority as a going concern and additional assurances and evidence being sought by auditors as part of their review of the Statement of Accounts.
7. Additionally for the Council there were a number of resourcing issues during the preparation of these accounts, principally the vacancy on the Chief Accountant post, which would normally be the key strategic and technical adviser in relation to the closure process.

## **Changes to the Statement of Accounts**

8. Given the size of the Council's operations in terms of service delivery and the volume/size of the financial transactions incurred, it is inevitable that an external audit of the accounts will find a number of accounting errors and disclosures that need amending.

The accounting errors can be categorised as either adjusted or unadjusted depending on their size, and how much work is required to re-work the financial statement and notes for these issues.

9. The report on 31<sup>st</sup> March 2022 sets out in some detail the main changes that were being made to the Statement of Accounts since the draft stage and the areas where additional work had been required. It is not intended to duplicate these within this report but the main areas related to a change in the net pension liability under IAS19, accounting for Covid-19 grants as agent/principal, accounting for income and expenditure on the disposal of non-current assets, a couple of presentational errors on property, plant & equipment. These items are set out in the external auditors – audit results report, also on this agenda, if more details are needed.
10. There are also a number of unadjusted items that have been identified as errors within the accounts. These are important because Members need to approve officers' advice not to change the accounts for these. As a result, these are listed individually below for Members information.
  - An overstatement of income and debtors of £1,492k due to incorrect recognition of an invoice for Section 106 amounts raised in error;
  - An overstatement of the valuation of Centre Square 2 of £693k due to a transposition error in the asset size used by the Council's external valuer;
  - An overstatement of income and earmarked reserves of £549k due to double-counting of a Covid-related grant;
  - An extrapolated overstatement of expenditure of £2,704k relating to non-recognition of prepayments for amounts relating to future periods; and
  - An extrapolated overstatement of income of £2,897k relating to late recognition of amounts related to earlier period.
11. The net impact of these audit differences, if corrected, would be to increase the deficit on the provision of services by £2.927m, which is well below the materiality threshold for the Council of £6.1m.
12. A number of other disclosures have also been changed as part of the audit process and again the main items are disclosed as part of the audit results report.

### **Highways Infrastructure Assets**

13. The report to the Committee on 9<sup>th</sup> June 2022 sets out the current issue on this subject and the reasons why this was delaying external auditors issuing opinions on the financial statements. In summary, this relates to an uncertainty on whether these assets have been fully depreciated over their useful life before they have been replaced. If this is not the case then the totals in the balance sheet for these assets could be materially misstated.
14. CIPFA undertook some work via an urgent task and finish group in April and May to assess what was needed as a temporary solution to allow any open 2020/21 audits to be finalised. Some guidance was initially published based on the conclusions of the Group and a consultation was held seeking stakeholder views from the wider sector, which closed on 14 June 2022.

15. The final advice from CIPFA is still pending in relation to this matter and until this is ratified, we are not fully aware of the changes that may need to be made for this. This matter has been discussed further with EY and we have agreed that the Committee can approve the audited accounts in principle without this advice being available. However, it would be useful for the interim Director of Finance to be given delegated approval to make any relevant adjustments to the Statement of Accounts for 2020/21 for this as and when the advice is received and without bringing the accounts back to Committee for further consideration. Once these changes have been made the audited statement of accounts will be published.

### **What decision(s) are being recommended?**

That the Corporate Affairs and Audit Committee:

- Approve the Audited Statement of Accounts for 2020/21 at Appendix A on the following basis:
  - That the audit is substantially complete for both the financial statements and value for money assessment;
  - That all relevant and appropriate adjustments have been made in the accounts as a result of the external audit process;
  - That the list of unadjusted misstatements set out at paragraph 10 are not made within the accounts;
  - That responsibility is delegated to the Interim Director of Finance (S151 Officer) to make any final adjustments to the Statement of Accounts for 2020/21 in respect of the CIPFA guidance on highways infrastructure assets; and
  - That any final changes to the Annual Governance Statement (see item 8 on the agenda) are incorporated into the Statement of Accounts before it is published on the Council website.

### **Rationale for the recommended decision(s)**

16. The approval of the Statement of Accounts is an approval in principle by the Committee accepting that there still a number of individual issues still to be resolved.

### **Other potential decision(s) and why these have not been recommended**

17. The approval of the Audited Statement of Accounts is a statutory process and as a result no other options or decisions are available.

### **Impact(s) of the recommended decision(s)**

#### ***Legal***

18. The external audit of the Statement of Accounts is a legal requirement under the Accounts & Audit Regulations 2015. Under the amended coronavirus regulations for 2021, the audit process should be complete by 30<sup>th</sup> September 2021. However, under the Act there are provisions for continuation of the audit where it is not complete. There is currently a notice on the Council's website that indicates that the audit is not yet complete and under which statutory provision this can occur. The aim being to finalise the audit and publish the audited accounts as soon as possible afterwards.

### ***Strategic priorities and risks***

19. As the Statement of Accounts covers all financial transactions of the Council, it encompasses all strategic priorities and risks.

20. The main risks associated with the late completion of the external audit and publication of the accounts are:

- Reputational (i.e. how this is seen by other external bodies and the public in terms of the Council not being able to publish these on time); and
- The impact that this has on the capacity of the internal finance team to plan and deliver the next set of accounts as at 31<sup>st</sup> March 2022.

### ***Human Rights, Equality and Data Protection***

21. There are no relevant considerations in these areas in respect of this report.

### ***Financial***

22. Although the Statement of Accounts is the main method of external financial reporting to the public and other stakeholders by the Council, there are no specific financial implications of the content of this report or the external audit not yet being complete.

## Actions to be taken to implement the recommended decision

Action	Responsible Officer	Deadline
Any changes needed to the 2020/21 Statement of Accounts as a result of the CIPFA advice on Infrastructure assets	Interim Director of Finance	TBC as based on external advice – but expected to be in the next 2/3 months

## Appendices

1	Appendix A – Audited Statement of Accounts 2020/21
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## Background papers

Body	Report title	Date
Corporate Affairs & Audit Committee	Draft Statement of Accounts 2020/21	5 <sup>th</sup> August 2021
Corporate Affairs & Audit Committee	Statement of Accounts (Financial Element)	31 <sup>st</sup> March 2022
Corporate Affairs & Audit Committee	Infrastructure Assets & Statement of Accounts 2020/21	9 <sup>th</sup> June 2022

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