

Report of:	Director of Finance (S151 Officer)
Submitted to:	Corporate Affairs and Audit Committee
Date:	29 September 2022
Title:	Draft Statement of Accounts – 2021/22
Report for:	Information
Status:	Public
Strategic priority:	All
Key decision:	Not applicable
Why:	Not applicable
Urgent:	Not applicable
Why:	

Executive summary

Under the Constitution, Corporate Affairs and Audit Committee are responsible for the approval of the Council's Statement of Accounts (SOA) each year. This report presents the draft SOA for the 2021/22 financial year, comments on the main movements in the organisation's financial position during the year and then sets out the legal processes that underpin the SOA process and the responsibilities that need to be undertaken.

This report is presented two months behind last year's draft SOA and four months later than in financial year's pre-Covid-19. The Committee will be aware of the reasons for delay on the audit process (from previous reports in 2019/20 and 2020/21). However, it is still an important aspect of the approval process for Members to consider the financial details of the Council at the draft stage and prior to the external audit.

The accounts are a complex document and as a result, it is important that Members have the appropriate time to consider these but also the relevant professional advice on which areas to focus on. Although this report can give some guidance, it will be important to have specific training on this set of accounts so they are considered and relevant challenge made.

Purpose

1. For Members of the Corporate Affairs and Audit Committee to note and review the draft Statement of Accounts for the 2021/22 financial year.
2. It is best practice and good governance for the Committee to review the draft SOA prior to approving the audited accounts under the requirements of the Accounts and Audit Regulations 2015. It is also important that Members with responsibility for agreeing the Council's Statement of Accounts have access to the appropriate training to be able to fulfil this role due to their complex and wide-ranging nature.

Background and relevant information

3. Like all large organisations, Middlesbrough Council is required by law to publish and report on its financial position, performance and cash flows during the financial year. It does this by producing and publishing a statement of accounts each year.
4. The Accounts produced by the Council have some similarities to those produced by private companies under companies act legislation. However, local authorities have their own specific set of rules to follow in relation to financial reporting under various local government acts. They are also required to follow the main provisions of the Local Authority Accounting Code of Practice, which is issued each year by the Chartered Institute of Public Finance & Accountancy (CIPFA).
5. The draft Statement of Accounts (Appendix 1) is a highly technical and complex document but is the main form of external financial reporting provided by local authorities. Its format and content is prescribed by the CIPFA Accounting Code of Practice with the aim of giving a high level of visibility and transparency over the Council's financial affairs.
6. The Statement of Accounts firstly consists of a Narrative Report from the Director of Finance. This report gives an explanation on the financial position of the Council and describes the key activities/highlights for the council during the year. The report also contains performance-based information that shows what has been achieved by the use of these funds during the financial year.
7. The second section includes the Council's financial statements. These are the core elements of the SOA and include the movement in reserves statement, the income and expenditure statement, the balance sheet and the cash flow statement for 2021/22.
8. The third section is the notes to the accounts and these include detailed narrative and figures that support the key totals within the financial statements and other issues that are of interest to local authority stakeholders.
9. The Accounts also include the collection fund, covering council tax and business rates activities and the accounts of the Teesside Pension Fund for which Middlesbrough Council is the administering authority. For the first time this year, the Council has produced a set of group accounts (financial statements and notes) which consolidate our wholly owned subsidiary, Middlesbrough Development Company, into the Council's own accounts. This is due to the size of assets and liabilities associated with the company exceeding the Council's materiality threshold during the financial year.

10. The final section is the Annual Governance Statement that sets out how the Council has complied with best practice governance arrangements and any key issues that arise from that. Due to the governance issues identified by Ernst & Young (EY) during the audit of the 2020/21 accounts, this document is not finalised at present. This will be added into the draft SOA once the statement has been considered by Members at a subsequent meeting.

Timetable for the Statement of Accounts

11. The Accounts are approved in two stages under the accounts and audit regulations.

- *The draft accounts are signed and published by the Chief Finance Officer in line with statutory regulations:*

The accounts are then open for public inspection for a period of 30 working days. The accounts are also during this time audited by the Council's independent external auditors, EY. It is the auditor's role to review the financial statements and to certify that the accounts give a true and fair view of the financial position of the Council. Given the Council's use of public money, an additional responsibility of the auditor is to provide a view on whether the council has secured arrangements for achieving value for money in total across all of the Council's activities. If the Auditor is happy with the statements and the value for money arrangements, they will issue a 'clean' unqualified certificate for each of the measures. If it not satisfied then the auditors can 'qualify' either the financial statements themselves or the arrangements for value for money or both, which is an undesirable outcome for the Council.

- *The audited accounts are amended (where necessary) as a result of the external audit, signed again by the Chief Finance Officer as a true & fair view, and then issued for approval to the Committee. Finally, they are published as the final record for the financial year on the Council's website.*

12. The Audit and Accounts regulations 2015 have again been amended for 2022. Normally the draft accounts require certification by 31st May and auditing by 31st July. The statutory timetable has been revised to reflect the residual impact on local authorities and their finance teams of Covid-19, plus some of the ongoing delays on audits to the accounts for previous years. The dates have been revised to the end of July and the end of September respectively for the draft and audited SOA.

13. The timetable for the approval of the Statement of Accounts is set out below:

Action	Timeframe
Publish the draft Accounts for 2020/21 signed by the Chief Finance Officer.	Signed by previous CFO on 29 July (but not published until 8 August 2022)
Public Inspection Period	From 30 August to 10 October 2022
External Audit Period	From start of September 2022 to end of February 2023 (estimated)

Publish Audited Accounts approved by Corporate Affairs and Audit Committee.	2 March 2023
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14. As Members will note the timescale for the audit and approval of accounts is outside of the statutory timeframe. This is not uncommon in recent years. A CIPFA survey on the 2020/21 accounts showed that only 9% of local authorities had their accounts audited by legal date of 30 September 2021. As mentioned before there are provisions within the Accounts and Audit Regulations that permit the external audit to continue beyond these dates where there are still outstanding matters to resolve.
15. It should also be noted that the target date of 2 March 2023 for the Committee's approval of the audited accounts is based upon no significant delays or issues and could well be later than this as for the 2020/21 accounts for the Council.

Draft Statement of Accounts 2021/22

16. A full training session will be provided for Members on the 2021/22 statement of accounts before the external audit is complete due to their complex and technical nature. However, some areas to focus on at present are as follows.
17. The key headline is that the balance sheet for the Council has improved significantly during the financial year from a negative net worth of £44.9m to a positive position of £64.5m. An improvement of £109.4m. This predominantly relates to the net pensions liability and the position in relation to International Accounting Standard (IAS) 19. Further analysis of this movement is contained within Note 39 to the accounts. This change is also reflected in the movement in reserves statement as part of unusable reserves and in the income and expenditure statement as an actuarial gain.
18. Other areas of interest outside of the Core Financial Statements that Members may want to review are:
- The narrative report;
 - The going concern disclosures for the Council in Note 1 to the accounts;
 - Note 7 on Earmarked Reserves;
 - Note 12 on Grant Income;
 - Note 14 on Officers Remuneration;
 - The various notes on non-current assets (notes 21-28);
 - The various notes on Financial Instruments (notes 29-31);
 - The new section on Group accounts.

What decision(s) are being recommended?

Corporate Affairs and Audit Committee are asked to note the Draft Statement of Accounts published by the Director of Finance on the 8 August 2022, representing a true and fair view of the Council's financial position as at 31 March 2022.

In addition, that Members discuss any further training that may be needed to fulfil their statutory role and that this training be arranged with the Head of Finance & Investments.

Rationale for the recommended decision(s)

19. It is best practice and good governance for the Committee to review the draft accounts prior to approving the audited accounts. It is also important that Members of the Committee have some degree of financial literacy to be able to interpret and challenge the accounts and the conclusions reported by Officers.

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

20. Not applicable at this stage.

Impact(s) of the recommended decision(s)

Legal

21. The publication of the draft statement of accounts is a legal requirement under the Accounts & Audit Regulations 2015.

Strategic priorities and risks

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

Human Rights, Equality and Data Protection

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

Financial

24. 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 relating to this report.

Actions to be taken to implement the recommended decision

Action	Responsible Officer	Deadline
A date for Member training on the Accounts to be arranged over the coming months, and before the external audit of the accounts is complete.	Head of Finance & Investments	To be confirmed with the Chair and Vice Chair.

Appendices

1	Appendix 1– Draft Statement of Accounts 2021/22
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Background papers

There are no background papers associated with this report.

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