

AUDIT AND GOVERNANCE COMMITTEE

22 JULY 2022

DRAFT ANNUAL STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Recommendation

- 1. The Chief Financial Officer recommends that the draft Final Accounts Pack, including the Statement of Accounts for the financial year ended 31 March 2022, be noted.**

Background

2. The Council and Pension Fund are required to prepare annual Statement of Accounts and to arrange for them to be audited and reported in accordance with the Accounts and Audit Regulations 2015, and the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement of Accounts presents the overall financial position of the Council and the Pension Fund, reflecting the Council's outturn position and the Pension Fund net asset position.
3. This report sets out an update of the work completed to date on the external audit of the Statutory Accounts and the process for their publication. The external audit is being carried out by the Council's External Auditor, Grant Thornton UK LLP, and their audit plans and progress for the County Council and Pension Fund accounts is included as a separate Agenda Item at today's meeting and should be read in conjunction with this report.

Key issues arising

4. In response to measures to improve local audit delays, the requirement to prepare draft accounts by 31 May has been extended to 31 July and the requirement for the public inspection period has been amended to commence on or before the first working day of August 2021. The Accounts and Audit (Amendment) Regulations 2021 extend the statutory audit deadlines for 2020-21 and 2021-22 for all local authorities.
5. Notwithstanding this, the Council has completed the 2021/22 draft accounts to its planned timetable and has continued to enhance its supporting evidence and working papers in response to prior year audit findings, with a focus on clarity of financial reporting, particularly in areas that involve estimation and judgement.

6. The Council has worked with Grant Thornton throughout and it is planned that audit fieldwork will be completed by the External Audit team with weekly on-site presence over July and August. Audit field work commenced on 4 July 2022 with over 250 pieces of supporting audit evidence and working papers provided to the team on this date.

7. It is anticipated that we will still be able to complete all parts of the accounts process well within statutory deadlines, with unaudited accounts being presented today, and audited accounts at the next committee meeting on 23 September 2022.

Table 1: Accounts Process

Area	Council Plan	Statutory Deadline
Publication of Draft Accounts	4 July 2022	31 July 2022
Public Inspection Period	4 July to 12 August 2022	Commence on or before 1 August 2021
Publication of Audited Accounts	23 September 2022	30 November 2022

8. The Council provided draft accounts to Grant Thornton on 4 July 2022. These draft accounts and the draft Annual Governance Statement were also reported to Cabinet at its meeting on 1 July 2022.

9. The financial position reported in the Council's Statutory Accounts for 2021/22 was an underspend of £1.3 million against the net budget of £352.5 million, with an accounting deficit taking into account pension actuarial costs, capital costs and other financial adjustments, of £5.5 million. The County Council's General Fund reserve balance has increased by £1.3 million to £14.3 million and there has been an increase of £47.5 million on available earmarked reserves taking their balance at 31 March 2022 to £144.4 million. Additionally, School reserves of £5.4 million and £7.8 million of Private Finance Initiative (PFI) reserves are retained.

Table 2: Reserves

	Balance at 31 March 2021	Transfers out	Transfers in	Balance at 31 March 2022
	£m	£m	£m	£m
Directorate Reserves	57.3	-11.6	43.6	89.3
Capital Reserves	7.9	-0.0	0.1	8.0
Corporate Funding/Insurance	31.7	-7.3	22.7	47.1
Schools Reserves	4.0	-4.0	5.4	5.4
PFI Reserves	13.8	-12.0	6.0	7.8
Total	114.7	-34.9	77.8	157.6

10. The cumulative DSG deficit brought forward from last financial year was £6.5 million which will now be increased by £4.8 million deficit from 2021/22 and the deficit to carry forward into 2022/23 is now £11.3 million. In line with the School and Early years Finance (England) Regulations 2020, the DSG earmarked reserve was reclassified as an unusable reserve from 1 April 2020 and therefore now excluded from the above table.

11. We instructed external valuers Wilks Head & Eve to perform the Land & Building asset valuations in 2021/22 in line with our rolling programme. Valuations were completed as per the planned timetable and revaluations have been processed to update carrying values at 31 March 2022 and are reflected in the 2021/22 draft accounts.

12. The value of the Pension Fund's net assets increased by £219.8 million from £3,364.8 million at 31 March 2021 to £3,584.6 million at 31 March 2022. During the year a deficit resulted on the Pension Fund accounts totalling £7.4 million, a decrease of £109.2 million from a surplus of £116.6 million in the previous year.

13. The external audit fieldwork and Value for Money assessment will continue over August and September and members will be updated on audit findings at the 23 September 2022 committee meeting.

14. Latest national data on the completion of audit opinions shows that the audit sector continues to face significant challenges. As at 31 May 2022, a total of 51 local authorities have not yet received an audit opinion for 2019/20 with a further 19 opinions delayed from earlier years. There remain 201 audit opinions still in progress for the 2020/21 financial year.

15. For 2021/22, a key issue affecting all local authorities is the accounting treatment and disclosure of infrastructure assets in the financial statements. Infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

16. A technical issue has arisen following audit challenge across the sector in 2020/21 which highlighted potential audit risks that the useful economic lives of infrastructure assets are not appropriate to component elements and that the gross cost and accumulated depreciation of these assets in the accounts are overstated if components of infrastructure assets are not derecognised (i.e. removed) as they are replaced.

17. For the majority of local authorities, including Worcestershire, component elements have not been historically derecognised on the assumption that the cost of an asset has been fully consumed when the replacement expenditure takes place, with Council depreciation policies reflecting this approach. In practice, infrastructure assets are typically held by Councils for many decades, making the identification of historic transactions challenging.

18. CIPFA has issued a consultation on implementing temporary proposals relating to accounting for infrastructure assets. The consultation sought views with the aim of assisting the current reporting position and supporting meaningful information for the users of local authority financial statements

19. Draft guidance issued by CIPFA in June 2022, via its joint task and finish group, proposed temporary changes in the CIPFA Code to allow local authorities to separately report and disclose this category of assets in 2021/22 and to consider accounting policy and approach for the de-recognition of its infrastructure assets in subsequent years.

20. Infrastructure assets in the Council's accounts have a net book value of £418.7 million at 31 March 2022. The value of this category of asset has been disclosed, separate from other categories of Property, Plant & Equipment, as per the draft guidance issued by CIPFA on 1 June 2022. The Council will continue to work with external auditors on this technical issue and consider developments and formal guidance as it is issued.

Contact Points

Specific Contact Points for this report

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Supporting Information

- Appendix: Draft Annual Financial Report and Statement of Accounts 2021/22

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.