

Financial Reporting and Related Matters

To: Audit and Accounts Committee

Meeting Date: 31 May 2022

From: Chief Finance Officer

Electoral division(s): All

Key decision: No

Forward Plan ref: N/A

Outcome: The Committee is appraised of progress with the Statement of Accounts for the year ending 31 March 2021, and considers matters relating to the production of accounts for 2021/22.

Recommendation:

1. To note and comment on this report
2. To note the external auditor's draft Audit Results Report
3. Approve the accounting policies set out in Appendix A, including the two changes proposed to the current accounting policies set out in section 3.5.

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1. Background

- 1.1 The annual Statement of Accounts is the financial representation of all activities that the Council has been directly or indirectly involved with, over the course of the 2020/21 financial year. The publication of the Statement of Accounts is an essential feature of public accountability and stewardship, as it provides an annual report on how the Council has used the public funds for which it is responsible.
- 1.2 The Accounts are prepared under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2020/21, which is based on International Financial Reporting Standards (IFRS) adapted for public sector use. The signing, approval and publication of the Accounts is set out in Section 9 of the Accounts and Audit Regulations 2015.
- 1.3 This Committee received an updated version of the statement of accounts in its 7th of March 2022 meeting, and delegated authority to the Chair of the committee and the Chief Finance Officer to sign the final Statement of Accounts on completion of the local audit.
- 1.4 This report provides a further update on the progress of the final Statement of Accounts, and related matters, including looking ahead to the production of 2021/22's accounts.

2. 2020/21 Statement of Accounts

- 2.1 The report to the 7th of March 2022 meeting of this Committee set out that the external audit of 2020/21's accounts was progressing well. Since that meeting most aspects of the audit have now been completed, with outstanding items listed below. However, a national issue around accounting for infrastructure assets has further delayed completion of our final Statement of Accounts.

2.2 Infrastructure Assets

- 2.2.1 These assets, which predominantly relate to roads and highways, are one of the few categories of Property, Plant & Equipment valued at depreciated historical cost, rather than at an assessment of their current value. Due to this basis of valuation, as well as the inalienable nature of the assets, accounting for infrastructure has not typically been an area of significant audit risk.
- 2.2.2 Under this method of valuing infrastructure assets, any replacements to infrastructure assets, such as making a repair to a road carriageway, need to be assessed to understand if any of the replaced components still have a carrying value that needs to be de-recognised.
- 2.2.2 Concerns were recently raised by a local authority auditor at another council that some authorities were not correctly applying component accounting requirements appropriately. In particular, there is a concern that in not correctly reporting and derecognising gross historical cost and accumulated depreciation (required in the CIPFA Code's implementation of IAS 16), these values in the balance sheet would continue to increase until they are materially overstated. This risk of material overstatement has caused a pause in the

completion of all local authority audits until accounting treatments can be assessed on an authority-by-authority basis, or further guidance is issued by CIPFA.

- 2.2.3 CIPFA has responded to this issue by commencing a task and finish group to review and propose changes to the CIPFA Code that might assist with resolution. It has issued a consultation on a temporary solution that should enable outstanding audits to be completed, ahead of a more permanent solution being developed.
- 2.2.4 In Cambridgeshire, this issue was identified during production of the 2017/18 accounts and therefore since then, the Council has applied an accounting treatment that is in line with the Code's current requirements. The change was also backdated to 2014/15, as this was the point at which records were readily available to undertake the necessary analysis and relevant calculations. This approach derecognises both the gross historical cost and the accumulated depreciation of the replaced component of the infrastructure asset. In doing so, the Council makes the assumption that the replaced component is fully depreciated (therefore the asset would have a carrying value of nil), and that its historical cost is the same as the cost of the replacement. This approach overcomes the lack of practical information about what specific part of an asset is being replaced, and what it previously cost.
- 2.2.5 The Council's current external auditors, EY, are comfortable with this approach; however, in order to be sure that gross book values of infrastructure assets have not been materially misstated in line with the current CIPFA Code of Practice, they believe it would be necessary for the Council to undertake further analysis and adjustment in relation to the period since International Financial Reporting Standards (IFRS) came into effect in 2010/11 up to 2013/14; the year before the Council made the first Prior Year Adjustment.
- 2.2.6 Part of the reasoning why the Council only made an adjustment back to 204/15 related to the nature of the readily available information that the Council held. A change in reporting requirements in that year meant that from 2014/15 onwards, information was held that enabled a retrospective analysis to be undertaken and applied; this was not possible for information held prior to 2014/15. Both the Council and EY have assessed the information available since 2014/15 to see if it is possible to use more recent information to make assumptions about the nature of the expenditure in prior years, but we have both concluded that there is no consistent trend that can be used.
- 2.2.7 CIPFA is currently consulting on the possibility for 2020/21 and 2021/22 to remove the requirement to report infrastructure assets on a gross basis, on the assumption that the net carrying value of infrastructure assets is likely to be correct. This would potentially resolve the issue for the Council and enable the accounts to be signed off. However, it is not likely to come into force until late June 2022, at the earliest.

2.3 City Deal

- 2.3.1 At its 7th of March meeting, this Committee was updated on the auditor's progress in reviewing treatment of the City Deal grant. In the draft statement of accounts, the Council recognised the full five years' worth of the current tranche of City Deal grant confirmed by government.

- 2.3.2 In the report to that Committee, the alternative accounting entries were shown should the conclusion be reached that only the first year of funding should be recognised, and members were able to comment on that alternative treatment
- 2.3.3 EY and the Council have now concluded on the relevant accounting treatment and have determined that the appropriate treatment is to recognise each year's individual allocation as a separate grant in the Comprehensive Income and Expenditure Statement. There has been no change to the Council's conclusion regarding conditions; no conditions exist regarding the receipt of the £40m (using the definition of 'conditions' required by the Code in relation to grants), therefore £40m of grant income has been recognised in 2020/21.
- 2.3.4 The alternative accounting entries have therefore been applied within the Council's accounts. As previously highlighted, this has had no impact on the funds or reserves available to the Council for deployment of services, or the Council's assessment of its basis of going concern.
- 2.3.5 There is one final area outstanding in relation to City Deal, regarding whether a Prior Year Adjustment is required in relation to receipt of City Deal funding in previous years. At the time of writing, EY have not yet concluded on their view of this, however, we are expecting to be able to provide an update on this at committee.
- 2.4 As of 23rd May, the only remaining items required to complete the audit (in addition to the above) are:
- Review and agreement of a newly created Inventory note in the Group Accounts
 - Review of the final version of the Statement of Accounts
 - Updated review of going concern and subsequent events, taking the assessment up to the date of authorisation (which will be dependent on the course of action taken with respect to infrastructure assets)

3. 2021/22 Statement of Accounts and Accounting Policies

- 3.1 In March 2021 the Government issued regulations that amended the deadlines for publication of draft and final accounts for the financial years ending 31 March 2021 and 31 March 2022. Therefore, as with the accounts for 2020/21, the date for publication of the draft accounts for 2021/22 is currently 31 July 2022, and the audit should be completed by 30 September.
- 3.2 The Council is confident that the draft accounts will once again be published in accordance with the timescales set out of the end of July.
- 3.3 The Council has received EY's draft resource allocation plan for conducting their audits of 2021/22's accounts, with the Council expected to be audited from mid-September to early-November. This means that, unless the government amends the deadline for completion of local audits, the Council will miss the national deadline for having a final, audited statement of accounts.
- 3.4 The Government has recently commenced a consultation on amended regulations that would extend the deadline for having completed, audited accounts to 30 November (rather than 30 September). The Council has responded to this consultation by stating that, while

we welcome the delay because it reflects the delays in auditor availability, without significant intervention by government, even that later date is very unlikely to be met by the majority of councils.

3.5 Accounting Policies

3.5.1 The Council's Statement of Accounts is produced based on a set of accounting policies that are adopted each year, which are listed within the accounts.

3.5.2 For the production of the Statement of Accounts for 2021/22, one amendment is proposed to an existing policy and one new policy is proposed.

3.5.3

Policy	Amendment
Property, Plant and Equipment – Measurement	<p>Wording has been amended to reflect current practice to ensure carrying values are materially in-line with current values within the five-year rolling programme of valuations.</p> <p>“All assets are revalued via desktop valuation in year two and by indexation in years three to five. The index applied to each asset is based on changes in Building Cost Information Service (BCIS) forecasts and land value estimations since the previous year”</p> <p>This replaces: “the Council undertakes a carrying value assessment annually and adjusts for any material variances if required. This analysis involves a) a desktop valuation of assets over a certain value, b) a market review undertaken by the Council's external valuers, and if necessary, c) an indexation analysis that includes an assessment of when a depreciated replacement cost asset was last revalued and application of an index to it based on Building Cost Information Service (BCIS) forecasts and land value estimations for every year since the asset was last revalued”</p>
Inventories	<p>New disclosure of accounting policy:</p> <p>“Inventories are stated at the lower of cost and net realisable value. The cost of work in progress, which is included in the Group Accounts comprises, the acquisition cost of land, construction costs and professional fees (capitalised borrowing costs are removed as they are intragroup). Net realisable value is the estimated selling price in the ordinary course of business, less applicable, variable selling expenses. If cost falls below net realisable value, then an applicable impairment provision is recognised in the Comprehensive Income and Expenditure Statement.”</p>

3.4.4 The full set out accounting policies, including these amendments, is set out in Appendix A.

3.5 IFRS 16

- 3.5.1 International Financial Reporting Standard 16 amends the treatment of leases, specifically introducing a new 'Right of Use' asset that arise from leases, and a corresponding lease liability. The standard has been implemented to ensure that assets and liabilities arising from all leases, not just traditional finance leases, are reflected in an organisation's financial position.
- 3.5.2 Public sector adoption of this accounting standard was expected for the 2022/23 financial year. The complexities particularly of applying the standard to local authorities, combined with the existing stresses on the local authority auditing regime, has resulted in CIPFA delaying full implementation in the Code until the 2024/25 financial year, with an impact assessment published by the end of the financial year preceding that.
- 3.5.3 The Code defines a lease as "a contract, or part of a contract, that conveys the right to use an asset for a period of time". In local authorities, which provide a significant range of services, this definition will capture a high number of arrangements previously not recorded as leases.
- 3.5.4 The Council has a high-level plan for implementing this standard including the need to identify all arrangements covered by the Code's definition of a lease, to build organisational awareness of the changes to ensure the right data is collected, and to calculate asset and liability values for each arrangement.
- 3.5.5 The Council welcomes the delay in implementation as there are challenges to fully implementing the standard, particularly in terms of the volume of data gathering required, the availability of documentation for historic arrangements and the ongoing maintenance of records and valuations.
- 3.5.6 As we develop a more detailed implementation plan this Committee will be kept apprised of progress.

4. Alignment with corporate priorities

4.1 Communities at the heart of everything we do

There are no significant implications for this priority.

4.2 A good quality of life for everyone

There are no significant implications for this priority.

4.3 Helping our children learn, develop and live life to the full

There are no significant implications for this priority.

4.4 Cambridgeshire: a well-connected, safe, clean, green environment

There are no significant implications for this priority.

4.5 Protecting and caring for those who need us

There are no significant implications for this priority.

5. Significant Implications

5.1 Resource Implications

This report refers to the progress being made with the Statement of Accounts.

5.2 Procurement/Contractual/Council Contract Procedure Rules Implications

No significant implications

5.3 Statutory, Legal and Risk Implications

The publication of the Statement of Accounts is completed under relevant regulations and the statutory framework. Ongoing consultations that effect that framework have been mentioned within this report.

5.4 Equality and Diversity Implications

No significant implications

5.5 Engagement and Communications Implications

No significant implications

5.6 Localism and Local Member Involvement

No significant implications

5.7 Public Health Implications

No significant implications

5.8 Environment and Climate Change Implications on Priority Areas

5.8.1 Implication 1: Energy efficient, low carbon buildings.

Neutral

5.8.2 Implication 2: Low carbon transport.

Neutral

5.8.3 Implication 3: Green spaces, peatland, afforestation, habitats and land management.

Neutral

5.8.4 Implication 4: Waste Management and Tackling Plastic Pollution.

Neutral

5.8.5 Implication 5: Water use, availability and management:

Neutral

5.8.6 Implication 6: Air Pollution.

Neutral

5.8.7 Implication 7: Resilience of our services and infrastructure, and supporting vulnerable people to cope with climate change.

Neutral

Have the resource implications been cleared by Finance? Yes

Name of Financial Officer: Stephen Howarth

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the Head of Procurement? N/A

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or Pathfinder Legal Services? N/A

Have the equality and diversity implications been cleared by your Service Contact? N/A

Have any engagement and communication implications been cleared by Communications? N/A

Have any localism and Local Member involvement issues been cleared by your Service Contact? N/A

Have any Public Health implications been cleared by Public Health? N/A

If a Key decision, have any Environment and Climate Change implications been cleared by the Climate Change Officer? N/A

7. Source documents guidance

7.1 [Accounts and Audit \(Amendment\) Regulations 2021](#)

7.2 [Urgent Infrastructure Assets Task and Finish Group | CIPFA](#)

7.3 [Draft statement of accounts considered at this Committee on 7th of March 2022](#)