

Statement of Accounts and Related Matters

To: Audit and Accounts Committee

Meeting Date: 7 March 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 the updated financial statements

Recommendation:

1. To note this report and review and comment on the revised Statement of Accounts
2. To note the external auditor's Audit Results report
3. To approve the decision to not adjust the Statement of Accounts in relation to the two items highlighted in section 2.6.
4. To delegate to the Chief Finance Officer and Chair of this Committee to sign the final Statement of Accounts, and to make any related declarations, taking account of the adjustments agreed with the external auditor.

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Member contacts:

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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 2020/20 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 version of the Statement of Accounts replaces the draft version that was presented to the Committee for review on 22nd July 2021 and should be considered in conjunction with the Audit Results Report from EY, the Council's external auditors, in respect of the audited accounts.

2. 2020/21 Statement of Accounts

- 2.1 A report to the November 2021 meeting of this Committee set out that the external audit had begun as planned during October 2021. The audit has progressed smoothly with both the auditor and the Council ensuring completion of the process according to professional and quality standards.
- 2.2 The focus since the last committee has been on progressing through the final stages of substantive testing and review, in line with the agreed audit plan. As at 25th February, the remaining items required to complete the audit are:

Completion of Testing

- Investments and Borrowings (4 external confirmations outstanding)
- Trade receivables
- Property, Plant and Equipment (1 assumption)
- Employee costs (6 items)
- Related Parties
- Narrative Report (consistency review)
- Capital Adjustment Account (1 item)
- Going Concern
- Group Accounts (based on updated accounts)
- Subsequent Events (can only be tested close to the report date)
- City Deal conclusion

Completion of Review

- Cashflow Statement
- Capital Financing Requirement and Minimum Revenue Provision
- Expenditure

- 2.3 The majority of these items are with the auditor to progress; the Council has been responding to requests for additional information as they are raised. Once this work has been completed, any remaining adjustments will be incorporated into the final accounts. The document will then be subject to final review and agreement by EY.
- 2.4 EY have provided a draft of their request to management for a letter of representation; this is included in the agenda for this meeting towards the end of the Audit Results Report. The Council envisages being able to provide this as requested as the work on the audit reaches its conclusion.
- 2.5 So far, the audit has identified several adjustments which have been made to the Statement of Accounts. None of these adjustments are material and the majority only affect disclosure notes or narrative sections of the accounts. Three items have been identified that have changed the main financial statements:
- Adjustment to pension plan assets as a result of an updated IAS 19 actuarial report that has enabled actuals rather than estimates to be used for asset performance (£7.5m movement within the BS)
 - Miscoding of a creditor reduction as a short-term provision (£1.5m movement within the BS)
 - Erroneous coding of NHS Covid contributions, reporting them as gross instead of net (£1.2m movement within the CIES)

Other changes to disclosures include the ability to use This Land's final accounts rather than their draft accounts in the preparation of the Council's group accounts.

- 2.6 A further two adjustments to the main financial statements have been identified but have not been adjusted:
- Understatement of the insurance provision (£967k movement between CIES and BS). The report on the annual self-insurance review is not produced until after the draft accounts have been prepared, therefore the figures have to be based on the recommended provision and earmarked reserve position from the prior year. The value of the under provision is immaterial and making the adjustment would impact on the Council's outturn position.
 - Differences between the Fixed Asset Register values and the valuation reports (£2.2m movement between the BS and CIES). Potential errors were identified on a handful of assets as part of the quality assurance process of the external valuations, for which there was insufficient time to resolve. Therefore, the Council decided to index the previous valuations instead, rather than use potentially incorrect valuations. These assets will receive a full inspection valuation in 2021/22 based on the correct underlying information, to bring the values up to date.
- 2.7 It was anticipated at the November Committee meeting that additional review of treatment of the City Deal grant would need to be undertaken with the external auditor given the high value of capital grant income recognised through that treatment and the extent to which the accounting standards require judgements to be made by practitioners. 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. Since the November committee, both the Council and the auditor have given further specialist consideration to these matters. The Council sets out in more detail in appendix A its reasoning for the accounting treatment

selected in preparing the draft accounts as well as the accounting treatment adopted in the accounts published at this meeting.

- 2.8 It is recognised this is a complex and judgemental area, albeit for reasons beyond those suggested in an initial public objection. The final determination of this matter is not yet concluded. The accounting entries for this treatment are set out in appendix A. If the conclusion is reached that only the first year of funding is to be recognised, these entries will be revised, but this has no impact on the funds or reserves available to the Council for deployment to services. Grant funding supplied for the City Deal has been ringfenced for that specified purpose. The accounting treatment for this grant has had no bearing on the Council's assessment of its basis for going concern, its financial sustainability or on the section 151's Officer's statement, as part of the budget, regarding the adequacy of reserves; nor does it have any impact on approval of loans to the Council from the Public Works Loan Board. The final accounting treatment for this grant will be reported to Committee Members and included in the final Statement of Accounts.
- 2.9 Although there remain a small number of outstanding areas, significant progress has nevertheless been made in several key areas for the 2020/21 process, resulting in fewer audit adjustments. Those areas include:
- Property Valuer consistency – 2020/21 used the same external valuer for a second consecutive year, which has not occurred for several years.
 - Property/Assets quality of data – the Strategic Assets team have put a significant amount of resource into improving the quality and robustness of data provided to the external valuers, as well as quality assuring the resulting valuation reports.
 - Process/system issues – the Closedown team are steadily working through previously identified issues and addressing these where time allows, including with pre-audit quality procedures. In addition, continuing familiarity of the ERP system is helping to drive through efficiencies in the production process.
- 2.10 Moving forward, areas for continued focus include:
- Reliance on third parties – production of the accounts and the successful audit relies on timely provision of information by teams across the Council, its partners, and external organisations. The interface with Payroll team (based at Northampton) under the Lead Authority model for shared services continues to be challenging, so the team is looking at ways to improve this and reduce the impact during the audit. The Lead Authority Board, where the Council is represented by the CCC Director of Resources, is aware of capacity issues within the payroll team and is taking steps to improve resourcing, responsiveness and control procedures.
- 2.11 Subject to the remaining areas for conclusion with the accounts, as set out and explained in this report, it is proposed that authority be delegated to the Chief Finance Officer and Chair of the Committee to agree and sign the final updated accounts after the auditor's work has completed.

3. 2021/22 Statement of Accounts and 2018/19 Value for Money

- 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 31 July 2022, and the audit should be completed by 30 September.
- 3.2 In December 2021, the Government published a number of measures to support the timely completion of local government audits and the ongoing stability of the local audit market. This is in the context of worsening numbers of authorities having audit opinions issued and final accounts published on time. For 2020/21, only 9% of authorities had audits completed by the extended deadline of 30 September 2021.
- 3.3 The measures proposed include £45m of additional funding nationally over three years to support local bodies with the costs of strengthening financial reporting and to implement the new burdens of increased auditing requirements. They also include measures relating to audit firms, including updated guidance from the Financial Reporting Council, and working in conjunction with CIPFA to develop new local audit qualifications and support to firms. CIPFA LASAAC has also been commissioned by the Government to consider time-limited changes to the accounting Code for 2021/22, which may include the delayed implementation of full IFRS16 compliance in local authority accounts. CIPFA is currently consulting on these proposals, with the exceptional consultation due to close on 3rd March 2022.
- 3.4 Irrespective of whether IFRS16 implementation is delayed, this is a significant project, therefore the intention is to bring a report to committee in May to provide further information on what is required and the steps that the Council will need to take.
- 3.4 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. We would anticipate that a work plan from the external auditor for phasing its local audit activity in the region for the next round of audits will come forward shortly.
- 3.5 In November 2021, the Council's previous auditors (BDO) reported on the Value for Money conclusion for the 2017/18 accounts. BDO's signed value for money opinion was received in December 2021 and this Committee also drew the attention of Full Council to the procurement failings identified. BDO's work in this area closely related to objections they had received from a local elector. At the time of publication in late February 2022, we understand that BDO are progressing consideration of the final matters in those objections and will determine them shortly, setting out their reasons. Our current auditor, EY, will then be enabled to further progress consideration of the value for money opinions and objections for the subsequent years.

3. Alignment with corporate priorities

- 3.1 Communities at the heart of everything we do

There are no significant implications for this priority.

3.2 A good quality of life for everyone

There are no significant implications for this priority.

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

There are no significant implications for this priority.

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

There are no significant implications for this priority.

3.5 Protecting and caring for those who need us

There are no significant implications for this priority.

4. Significant Implications

4.1 Resource Implications

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

4.2 Procurement/Contractual/Council Contract Procedure Rules Implications

No significant implications

4.3 Statutory, Legal and Risk Implications

The publication of the Statement of Accounts is completed under relevant regulations and the statutory framework.

4.4 Equality and Diversity Implications

No significant implications

4.5 Engagement and Communications Implications

No significant implications

4.6 Localism and Local Member Involvement

No significant implications

4.7 Public Health Implications

No significant implications

4.8 Environment and Climate Change Implications on Priority Areas

4.8.1 Implication 1: Energy efficient, low carbon buildings.

Neutral

4.8.2 Implication 2: Low carbon transport.

Neutral

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

Neutral

4.8.4 Implication 4: Waste Management and Tackling Plastic Pollution.

Neutral

4.8.5 Implication 5: Water use, availability and management:

Neutral

4.8.6 Implication 6: Air Pollution.

Neutral

4.8.7 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 LGSS Law? 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

5. Source documents guidance

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