

GOVERNANCE AND AUDIT COMMITTEE

Date of Meeting	Monday 14 November 2022
Report Subject	Update on the Statement of Accounts 2021/22
Report Author	Corporate Finance Manager

EXECUTIVE SUMMARY

The report provides an update on the current position of the Council's Statement of Accounts for the 2021/22 financial year.

The Council's accounts were completed and submitted for audit on the 6 July 2022, within the Welsh Government extended framework for the draft completion of 31 August.

The statutory deadline for publishing the final audited Statement of Accounts for 2021/22 is 31 July 2022, however the temporary framework set out by Welsh Government extends this to 30 November.

The audit of the Statement of Accounts 2021/22 has been taking place over the summer and is now substantially complete.

However, a national issue has arisen around the accounting of infrastructure assets and as a result, there is a risk that local authority financial statements could be subject to qualified audit opinions in this area. Further detail is set out in the report.

Having discussed the issue with Audit Wales the view is that an opinion cannot be given on the Accounts until the infrastructure assets issue has been resolved.

Therefore, formal approval of the Accounts will need to be deferred until a later date when the issue has been resolved.

Audit Wales will be in attendance at the meeting to provide a verbal update on progress of the audit and any other issues arising to date.

RECOMMENDATIONS

1	Members are requested to note the report and the reasons for deferring the approval of the Statement of Accounts 2021/22.
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REPORT DETAILS

1.00	EXPLAINING THE STATEMENT OF ACCOUNTS UPDATE
1.01	The Governance and Audit Committee received the draft Statement of Accounts 2021/22 on 27 July, for information only at that stage. The Accounts and Audit (Wales) Regulations 2018 specify the statutory deadline for the approval of the Statement of Accounts is 31 July, however the framework set by Welsh Government extends this to 30 November.
1.02	The audit of the Statement of Accounts 2021/22 is now substantially complete, although the audit continues up until the point at which the accounts are signed off by the auditors. However, a national issue has arisen around the accounting of infrastructure assets as set out in paragraphs 1.03 – 1.05.
1.03	The CIPFA LASAAC Code of Practice for Local Authority Accounting in the United Kingdom (the Code) requires infrastructure assets to be measured using the historical cost measurement basis and carried at depreciated historical cost.
1.04	Local government auditors in England have raised concerns with regards to subsequent expenditure on infrastructure assets. The Code requires that where a component of an asset is replaced, the carrying amount of the old component shall be derecognised to avoid double counting and the new component shall be reflected in the carrying amount of the infrastructure asset.
1.05	<p>Due to practical difficulties in applying component accounting for the recognition and derecognition of replaced components of infrastructure assets, in large part due to data limitations, most local authorities have been unable to comply with the requirement to assess the net book value of the replaced component and will have treated the amount of the replaced component as zero.</p> <p>This is because the replaced component is considered to have been fully used up at the point that it is replaced. The concern raised by auditors is that there may be a lack of evidence to support this assumption.</p>
1.06	As a result, and without resolution, there is a risk that local authority financial statements could be subject to qualified audit opinions in this area.
1.07	It is the role of the CIPFA LASAAC Local Authority Accounting Code Board to consider the extent to which International Financial Reporting Standards

	should apply to local authorities and to adapt and interpret accounting standards to address the public sector context.
1.08	As yet, CIPFA LASAAC has been unable to find a way forward that will satisfy both audit concerns and the requirement for high quality financial reporting. There is a risk that a solution may not be found within the necessary timeframe to satisfy the audit of 2021/22 annual accounts.
1.09	Currently, we are waiting for Welsh Government to develop a regulation that will provide a temporary statutory override whilst a permanent solution is developed within the Code, which will improve financial reporting in this area. Welsh Government will write to all Councils as soon as timings are known, to update the expectations for the closure of the accounts.
1.10	<p>Under the International Standards on Auditing (ISA) 260, Audit Wales is required to communicate relevant matters relating to the audit of the Statement of Accounts to those charged with governance, which for the Council is the Governance and Audit Committee.</p> <p>Having discussed the infrastructure asset issue with Audit Wales the view is that an opinion cannot be given on the Accounts until the issue has been resolved. Therefore, formal approval of the Accounts will be deferred until a later date when the issue has been resolved.</p>
1.11	The statutory deadline for publishing the final audited version was 31 July, this was extended to 30 November by Welsh Government. Welsh Government are now looking to extend this date beyond the 30 November.
	<u>Issues to date from the 2021/22 accounts</u>
1.12	<p>During the year there have been significant movements in build costs, consequently impacting the carrying value of assets. Asset valuations have been revised to ensure the Accounts are not materially misstated as at 31 March 2022.</p> <p>This exercise has been carried out for the Council's Depreciated Replacement Cost (DRC) assets and council dwellings using data sourced from the Building Cost Information Service (BCIS) and Land Registry, with the revised figures now reflected in the Accounts.</p>
1.13	To date, no other significant issues have arisen during the audit of the 2021/22 Accounts. Audit Wales will be in attendance at the meeting to provide any relevant updates.
	<u>Progress on the Clwyd Pension Fund Accounts</u>
1.14	The draft Clwyd Pension Fund Statement of Accounts were included in the Clwyd Pension Fund Annual Report for 2021/22 which was submitted to the Clwyd Pension Fund Committee on 31 August 2022. Members of the Pension Fund Committee may continue to raise issues on any aspect of the Annual Report, including the accounts, during September and early October.

1.15	The timetable of the audit of the accounts was discussed at the Pension Fund Committee meeting. The deadline for Clwyd Pension Fund to approve and publish its Annual Report is 1 December each year. The final audited Annual Report and Accounts will be presented to the meeting of the Pension Fund Committee on 23 November.
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2.00	RESOURCE IMPLICATIONS
2.01	There are no direct resource implications as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None required and none undertaken.

4.00	RISK MANAGEMENT
4.01	Without resolution, there is a risk that the Councils Statements of Accounts could be subject to qualified audit opinions in this area. A resolution to this issue may take a number of months, which leaves the Councils Statements of Accounts open to further changes should any other issues arise nationally until the accounts are signed off by the auditors.

5.00	APPENDICES
5.01	None

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Contact Officer: Chris Taylor – Strategic Finance Manager Telephone: 01352 703309 E-mail: christopher.taylor@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	Audit Wales: works to support the Auditor General as the public sector watchdog for Wales. They aim to ensure that the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes. Financial Audit: The annual external audit of the Council's Statement of Accounts. Financial Year: the period of 12 months commencing on 1 April.

Materiality: A concept used to inform judgements regarding the accuracy of the Council's Statement of Accounts. The basis could be quantitative with an assigned value or qualitative and affected by issues that are legal, regulatory, or politically sensitive.

Statement of Accounts / Final Accounts / Financial Accounts or Statements: The Council's annual finance report providing details of the Council's financial performance and position at the end of the financial year. The format is prescribed to enable external comparison with other public and private entities.