

Report to	Governance and Audit Committee
Date of meeting	23rd November 2022
Lead Member / Officer	Councillor Gwyneth Ellis, Lead Member for Finance, Performance and Strategic Assets
Report author	Steve Gadd, Head of Finance and Property
Title	Progress Update on Statement of Accounts 2021/22

1. What is the report about?

To provide an update on the audit of the draft Statement of Accounts 2020/21.

2. What is the reason for making this report?

The Corporate Governance Committee has delegated responsibility to approve the audited accounts which it was hoped would have been presented to the meeting on 23rd November 2022. This has not proved possible and this report explains the main reason behind that.

3. What are the Recommendations?

3.1 To note the position as presented in this update report.

4. Report details

Background

The council has a statutory duty to produce a statement of accounts that complies with approved accounting standards. The audited accounts have to be formally approved by elected members on behalf of the council. This role has been delegated to the Corporate Governance Committee. The draft accounts have now been finalised and were signed by

the Head of Finance on the 27th June (2nd August last year). The draft accounts have been made available for audit as required and will be open to public inspection from 15th July to 11th August.

As happened for the last few years the Welsh Government issued guidance that due to the ongoing impact of Covid the statutory deadlines for the completion of the Draft and Audited accounts would be extended as set out in the table below. DCC took the early decision to issue a notice (see below) to say that we would not be aiming for the statutory early deadline but would achieve the revised deadlines. This decision was taken in consultation with AW and informed by their assessment of their ability to complete the required audit work.

“Regulation 10(1) of the Accounts and Audit (Wales) Regulations 2014 (as amended) requires that the Responsible Financial Officer of Denbighshire County Council sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year. The Regulations require that this be completed by 31 May 2022.

The 2021/22 statutory deadlines are shown in the table below along with extended deadlines provided by Welsh Government due to the continuation of the pandemic.

Item	Statutory Deadline	Extended Deadline
<i>Draft Statement of Accounts</i>	<i>31 May 2022</i>	<i>31 August 2022</i>
<i>Audited Statement of Accounts</i>	<i>31 July 2022</i>	<i>30 November 2022</i>

The Responsible Financial Officer has not signed and certified the accounts for the year ended 31 March 2022 due to the impact of Covid19 on staff resources and additional work to finalise the accounts this year, and will work within the extended deadlines.”

Current Position

At this stage we still hoped to bring the Final Accounts to this committee. However over recent months a new issue has caused delays. Audit Wales have provided the following summary of the position:

“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.

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.

Due to practical difficulties in applying component accounting for the recognition and derecognition of replaced components of infrastructure assets, 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. 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. As a result, and without resolution, there is a risk that local authority financial statements could be qualified in this respect.

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. 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.

Welsh Government are currently consulting on a statutory override in respect of this issue whilst a permanent solution is developed within the Code, which will improve financial reporting in this area.

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. Having discussed the infrastructure asset issue with Audit Wales, Audit Wales’ view is that an opinion cannot be given on the financial statements 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.”

Obviously this is hugely disappointing, although understandable. From the service perspective the ongoing delays to signing the accounts off in a timely way should be noted. In particular the delays impact on the ability to deliver other work such as:

- Support the capital budget reporting process
- Identify Savings and inform the Medium Term Financial Plan
- Support required for Housing Revenue Account – Housing Stock Business Plan
- Any service improvements to financial processes
- Information / reporting requests from committees
- Finance System project
- The need to carry out at least some of these function then also impact on the service's ability to respond to queries from AW regarding the Statement of Accounts.

5. How does the decision contribute to the Corporate Priorities?

The publication of the Statement of Accounts underpins the financial stewardship and governance of the council and therefore supports all council services and priorities.

6. What will it cost and how will it affect other services?

There are no additional direct cost implications as a result of this report. However the service is staffed to the level required for a September approval of accounts, future delays may therefore incur additional costs in order to reduce the impact on the other work required as highlighted in Section 4.

7. What are the main conclusions of the Well-being Impact Assessment?

It is the professional judgement of the Section 151 Officer that a Well-being Impact Assessment is not required for this report.

8. What consultations have been carried out with Scrutiny and others?

The council's procedures and processes underpinning the production of the accounts are regularly reviewed by the Wales Audit Office. Professional opinions are drawn from numerous other disciplines beyond finance, such as legal, property valuation, HR and pensions.

9. Chief Finance Officer Statement

The Statement of Accounts is a key element of the council's governance framework. It is important that elected members are assured that the accounts have been produced in compliance with the relevant standards and that the process underpinning the production of the accounts is robust. Although it is disappointing that the timetable has slipped again this year it is pleasing to note that the draft single entity Statement of Accounts were prepared within the original timescales

10. What risks are there and is there anything we can do to reduce them?

The council would be in breach of its statutory duty if it could not approve the accounts by 30th November without a further notification – this is currently being drafted to issue in a timely fashion.

11. Power to make the decision

Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs. The Appointed Auditor is required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the council and must be satisfied that the accounts have been completed in compliance with the Accounts and Audit (Wales) Regulations 2018.