Report to	Governance and Audit Committee
Date of meeting	8th March 2023
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 2021/22.

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 8th March 2023. 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 report and update the Forward Work Programme accordingly.

4. Report details

4.1 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 were signed by the Head of Finance on the

27th June and were made available for audit as required and were also 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 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 Audit Wales and informed by their assessment of their ability to complete the required audit work.

4.2 Summary of position as at November 2022

An update was provided at the November Meeting regarding an issue that impacted all Welsh local authorities. This involved the requirement of the CIPFA LASAAC Code of Practice for Local Authority Accounting in the United Kingdom (the Code) that infrastructure assets be measured using the historical cost measurement basis and carried at depreciated historical cost. In particular, there were concerns around the practical difficulties in applying component accounting for the recognition and de-recognition of replaced components of infrastructure assets as 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 issue was resolved in early December when the Welsh Government passed 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. It had been hoped after this that we would be able to finalise the accounts for either the January or March meetings.

4.3 Reason for continuing delays to finalising the audit

Whereas the issue above impacted all Welsh LAs, unfortunately two more specific issues were raised in the meantime concerning DCC’s council house asset values which has not yet been resolved. The council dwelling asset register splits the Council’s housing stock over c1600 lines, with each line representing between 2 and 50 properties. Each line has its own revaluation reserve.

Issue 1: Where expenditure incurred does not appertain to a specific line, the Council’s practice has been to apply non-enhancing additions and impairments to council dwellings as a whole and not split them over individual lines. The Council has not had the information available to be able to accurately allocate these additions to individual lines. Audit Wales have in previous years raised questions about this but have accepted the Council's approach.

Issue 2: The Code requires that impairments and revaluation losses recognised in the Housing Revenue Account (HRA) are reversed by revaluation gains before any surplus revaluation gain is recognised in the revaluation reserve. The Council has not done this and instead has recognised revaluation gains in full in the revaluation reserve.

Although fully accepting Issue 2 (which has been implemented now for all other applicable asset classes) the Council had tried to argue that resolving the historic elements of Issue 1 in the only way practical (apportioning these costs across all the assets) would not be any more accurate than the way they had been accounted for. While we accepted that we would work with the service in the future to ensure more detailed management information was available to allow for the accurate allocation of these costs. However, this was something that Audit Wales (AW) could not accept as the Council could not provide assurance that the difference in the calculations would not result in a material misstatement – although disappointing we accept and understand AW's position on this.

AW had originally asked the Council to correct the asset registers back to 2007/8 by allocating the additions / impairments across the lines of the asset register and by using revaluation gains to reverse any impairments / revaluation losses previously recognised in the HRA. The Council agreed to try and undertake this exercise at the beginning of January – and it was anticipated that this would take around 3 to 4 weeks. However, following initial work attempting to revise the asset registers from 2007/8 to 2010/11 by apportioning additions / impairments on the basis of GBV, it has become evident that a prior period adjustment to the accounts on this issue was impracticable. Although time required to undertake the work is an issue, the main problem encountered is due to the time that has elapsed since the compilation of the asset registers (going back to 2007-08), meaning the working papers required to inform entries within each year's asset register, and the rationality behind many of the entries, are not available to us.

These, and other more technical issues, were raised with AW. In particular we argued that the Code recognises that that there will be circumstances where effecting a prior period adjustment is not practical. However AW still maintained that they could not approve the accounts without evidence that these figures were not materially misstated. After a number of discussions an approach was agreed in principle which resulted in a proposal to undertake the work from the time of the last revaluation in 2016/17. This work commenced at the beginning of February.

It has since become clear that the work cannot be completed in order to allow AW the time to undertake the necessary audit work in readiness for the March G&AC meeting. In addition, we now need to begin to address the backlog in preparations for with the closedown process for 2022/23 Statement of Accounts. This means that the outstanding work on the 21/22 accounts will not now be complete until after the production of the 22/23 draft accounts. The 2021/22 Statement of Accounts will remain open until the summer and it is likely we will not be in a position to bring an audited final set of accounts for that year until September 2023.

It has also been made clear by AW that they will be aiming to complete the work on the 22/23 accounts by November/December 2023. We will therefore aim to bring the Draft Accounts to the September meeting so that we can undertake additional quality assurance prior to passing the accounts for audit.

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 Audit Wales. Professional opinions are drawn from numerous other disciplines beyond finance, such as legal, property valuation, human resources 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, we continue to work closely with our Audit Wales colleagues to ensure a satisfactory outcome.

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

Without undertaking the additional work on the asset register it is likely that the Statement of Accounts would be the subject of an audit qualification by limitation until the issues could be resolved satisfactorily.

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.