

AUDIT AND ASSURANCE COMMITTEE

Meeting date: 30th June 2022

From: Director of Finance (S151 Officer)

ACCOUNTS PREPARATION 2021/22

1.0 EXECUTIVE SUMMARY

- 1.1 *This report provides an update on the previous report to the March 2022 Audit and Assurance Committee and summarises the progress to date on the preparations for the Council's and Cumbria Local Government Pension Scheme Statement of Accounts 2021/22 and the Council's Value for Money conclusion.*
- 1.2 *The unaudited Statement of Accounts will be published in late June ahead of the statutory deadline of 31st July 2022, in accordance with the Accounts and Audit (Amendment) Regulations 2021. The audited Statement of Accounts will be presented to Audit and Assurance Committee once the audit is completed.*

2.0 STRATEGIC PLANNING AND EQUALITY IMPLICATIONS

- 2.1 *This report supports the priorities of the Council Plan, as effective management of financial resources is a pre-requisite for making informed decisions when planning and delivering Council services.*

3.0 RECOMMENDATION

3.1 *Members are asked:*

- a. *To note the high level timetable for the closedown of the Council's and the Cumbria Local Government Pension Scheme 2021/22 accounts. (paragraph 4.2).*
- b. *To confirm in respect of the use of estimates (Council - paragraphs 4.4-4.7 and CLGPS paragraphs 5.5) that:*
 - *They have been appropriately briefed on how accounting estimates are used.*

- *There has been an opportunity to consider the areas where estimates are used.*
- *There has been an opportunity to challenge the approach / methodologies.*
- *That the approach taken by management is reasonable.*

4.0 BACKGROUND

Cumbria County Council Statement of Accounts

Closure of 2021/22 Accounts

- 4.1 The March Committee meeting agenda included a report which set out the plans for the preparation of the 2021/22 Statement of Accounts.
- 4.2 The closure of Accounts has progressed broadly in line with the timetable set out previously. The information required from external bodies has all been received. A high level summary of the original timetable is attached at **Appendix 1** for information. Key dates and progress are as follows:

Task	Date	Date Completed
Directorate finance teams to complete all accounting entries and produce their provisional outturn report.	21 st April	27 th April
Directorate working papers and analytical review completed	27 th April	29 th April
First draft of Statement of Accounts to be produced for Senior Managers Accountancy and Technical Finance to review.	6 th June	10 th June
Outturn report to Cabinet	9 th June	9 th June
First draft of Statement of Accounts to Director of Finance.	9 th June	23 rd June
Final draft of unaudited Statement of Accounts to Director of Finance.	24 th May	27 th June
Unaudited Statement of Accounts approved by Director of Finance, published on the website and passed to Grant Thornton together with working papers	30 th June	
Audit & Assurance Committee to receive Audit Findings Report from Grant Thornton	27 th September	

- 4.3 Regular meetings are scheduled with Grant Thornton during the year (monthly from December until the end of June and weekly during the main audit period from July to September) involving the Senior Manager Accountancy and the Group Accountant – Corporate Accounting. These meetings provide the opportunity to raise issues early with a view to a prompt resolution before the year end.

Use of Estimates

4.4 As part of the closedown process Grant Thornton also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

4.5 Specifically do Audit and Assurance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates.

4.6 There are five areas of the Council's Accounts where significant estimates are used:

Council Accounts:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- PFI liability
- Fair value estimates

4.7 These were covered by the Finance team in the Briefing for Committee members held on 12th May.

2021/22 External Audit

4.8 The external audit to be undertaken by Grant Thornton is scheduled for the period July to September. Grant Thornton's Audit Plan was presented to the March meeting of the Audit and Assurance Committee and the audit findings being reported to the 27th September meeting.

Significant Risks Identified by Grant Thornton

4.9 Grant Thornton reported that the significant risks for 2021/22 are unchanged from the previous years and are:

- Valuation of land and buildings and Investment Property
- Valuation of pension fund net liability
- Management over-ride of controls

4.10 All the above have been included in the planning for the preparation of the 2021/22 statement of accounts, the overall production of the Accounts and Annual Governance Statement is progressing to the 30th June deadline.

Significant risks identified by CCC for 2020/21 closure of accounts

4.11 There are no significant risks identified at this stage to the closure of the 2020/21 accounts.

Changes to Code of Practice on Local Authority Accounting for 2021/22

4.12 For 2021/22 there were initially no significant technical accounting changes in the Code, although preparations for the implementation of IFRS16 Leases on 1st April 2022 i.e. financial year 2022/23 were included. Late in the financial year, in an unusual move, CIPFA have consulted on three issues:

- an adaptation to the allow for a pause in valuations of operational property, plant and equipment for up to two years, this approach also explores the use of an index to be used to increase or decrease that valuation.
- deferring the implementation of IFRS16 Leases for a further year
- accounting for infrastructure assets.

The first two issues were set out in detail in the report to the March meeting of the Committee, more detail on the third issue and the action taken by CIPFA on all three issues, is summarised below.

Valuations of Operational Property, Plant and Equipment

4.13 An adaptation to the Code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years: this approach also explores the use of an index to be used to increase or decrease that valuation. CIPFA confirmed on 17th March 2022 that they weren't taking this option forward.

4.14 CIPFA's decision not to pause professional valuations reflected the following factors:

- Responses to the consultation did not substantially support the proposal
- unresolved concerns over whether it would reduce auditor work
- technical issues that might invalidate the approach for some assets
- difficulties in determining suitable indexes for the indexation proposal
- issues around 'catching up' after pausing stopped.

IFRS16 Leases implementation

4.15 CIPFA confirmed on 8th April 2022 that the implementation of IFRS 16 Leases would be deferred for a further two years until 1st April 2024. However, both the 2022/23 and the 2023/24 Codes would allow for early adoption as of 1st April 2022 or 2023. The Council will not be pursuing early adoption at this time.

Accounting for Infrastructure Assets

4.16 At the March meeting Grant Thornton commented on an emerging issue that had arisen nationally in relation to the accounting for infrastructure assets, which affects predominantly highways authorities. Concerns had been raised by a local government auditor that some authorities are not applying component accounting requirements appropriately and this is now an area of focus for all local audit firms.

4.17 CIPFA convened a Task and Finish Group which met three times in March and April continue to pursue options for resolution. However, CIPFA has

instead agreed to issue a consultation paper on a temporary solution so that local authorities and auditors can progress the 2021/22 Accounts and audit.

- 4.18 The proposed temporary solution for an amendment to the Code up to and including the 2022/23 Code would be to remove the need to derecognise and report gross historical cost and accumulated depreciation i.e. the Property, Plant and Equipment note to the Accounts would only show the net book value for Infrastructure assets.
- 4.19 The four week consultation on the temporary solution was issued on 12th May 2022 and closed on 14th June 2022. A more in-depth consultation on the issue will follow as a part of the consultation on the 2023/24 code.

Value for Money Opinion

- 4.20 As in previous years the Auditors will provide a Value for Money (VFM) conclusion for the financial year.
- 4.21 The NAO Code of Audit Practice for England onwards set out three reporting criteria for the value for money conclusion:
- *Governance* – how the Council ensures that it makes informed decisions and properly manages its risks.
 - *Financial sustainability* – how the Council plans and manages its resources to ensure it can continue to deliver services.
 - *Improving economy, efficiency and effectiveness* – how the Council uses information about its costs and performance to improve the way it manages and delivers services.
- 4.22 The Code requires a narrative VFM opinion and increases the focus on all three areas, particularly financial sustainability, and this is likely to have a significant impact on the evidence required by the external auditor and the impact on officer time.
- 4.23 To aid the completion of the Statement of Accounts audit the VFM audit can be completed up to three months after the opinion on the accounts is issued. The VFM conclusion is expected to be reported to the Audit and Assurance Committee on 6th December 2022

Whole of Government Accounts (WGA)

- 4.24 Prior to 2020 HM Treasury would issue the data collection tool (DCT) in March with submission for the unaudited Accounts by mid June and for the audited Accounts by the end of August. The DCT for the financial year 2020/21 was finally published on 29th April 2022. The deadline for completion is 31st July.
- 4.25 The completion of the 2020/21 DCT is scheduled for completion in early July, once the 2021/22 Accounts have been completed. It will be submitted by the deadline of 31st July.

- 4.26 The guidance published alongside the DCT suggests that the Council falls below the threshold for audit of the WGA for 2020/21.
- 4.27 Grant Thornton haven't yet received confirmation of this through their internal channels, the audit closure certificate will be issued when either it is confirmed that an audit isn't required or the audit work is complete.

5.0 Cumbria Local Government Pension Scheme ("The Fund")

2021/22 Closure Plan and Key Dates (LGPS)

- 5.1 Officers have completed the compilation of the financial statements for the Fund and these were presented to the Cumbria Pensions Committee on 16th June. The Senior Manager, Pensions & Financial Services will provide a verbal update to the Audit & Assurance Committee of any issues arising at the Pensions Committee regarding the draft accounts.
- 5.2 In producing the 2021/22 Cumbria LGPS Financial Statements, the Fund has followed the same process as in previous years including setting a cut-off date (17th May 2022) at which time all estimates within the accounts were revised to reflect any non-trivial adjustments advised to the Pension Fund by this date.
- 5.3 Whilst the Fund may continue to receive updated valuations from investment managers after this date, the financial statements will only be further amended if the revised valuations are deemed to be materially significant.
- 5.4 As noted in section 4.3, the unaudited accounts must be published at the latest by 31st July.

Significant Risks Identified by Grant Thornton

- 5.5 Grant Thornton have confirmed within their Audit Plan that the significant risks identified for 2021/22 are unchanged from those in 2020/21 which were:
- potential for management override of controls;
 - valuation of directly held investment property; and
 - valuation of "Level 3" investments

The use of estimates in the LGPS accounts, including the valuation of directly held investment property and "Level 3" investments were covered by the Finance team in the briefing for the Committee held on 12th May.

- 5.6 In addition, Grant Thornton have noted that, under ISA (UK)240, there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud related

to revenue recognition. Having considered the risk factors and the nature of the revenue streams of the Fund, Grant Thornton have concluded that this risk of fraud can be rebutted. Consequently, Grant Thornton have concluded that there is no significant risk to the Fund that revenue may be misstated due to the improper recognition of revenue.

Risks identified by the Fund for 2021/22 closure of accounts

- 5.7 In producing the 2020/21 financial statements, the Fund included an estimate of the impact of the McCloud case on the present value of past service liabilities on both a valuation basis and an IAS19 basis. The Fund has included a similar estimate in the production of the 2021/22 accounts. However, details of the resolution to McCloud may be finalised during 2022/23. Depending upon the timing of the announcement, Officers may need to reconsider its impact and potentially adjust the accounting entries. Officers continue to monitor this closely.
- 5.8 The Pensions Committee approved a revised Investment Strategy in December 2019 which was subsequently amended in March 2021 in response to the impact of the pandemic on expected future investment returns. The Fund is currently transitioning its assets to meet the revised asset allocation as set out in the Investment Strategy. Whilst this does not represent a risk to the 2021/22 closure of accounts, Officers will be working with Grant Thornton throughout the production of the accounts to ensure the auditors are familiar with the accounting entries employed by the Fund and the types of assets the Fund is invested in.

6.0 Role of the Audit and Assurance Committee in relation to the Accounts and the Audit Findings Report

- 6.1 The role of the Audit and Assurance Committee, as set out in the Constitution, in relation to the Statement of Accounts is to review the financial statements, receive the external auditor's Audit Findings Report and reports to members, letter of representation, and monitor management action in response to the issues raised by external audit.
- 6.2 The meeting of the Committee on 27th September 2022 will receive:
- The audited 2021/22 Statement of Accounts including CLGPS.
 - Audit Findings Report from Grant Thornton setting out their opinion on the Council's Accounts.
 - Audit Findings Report from Grant Thornton setting out their opinion on the CLGPS' Accounts.
 - The letters of representation from the Council to Grant Thornton in respect of the Council and CLGPS. The letters contain written representations about the Council's financial statements and governance arrangements.
 - The audited set of accounts for Port of Workington.
- 6.3 After considering all the above items the Committee will be asked to:

- a) Agree the Letters of Representation on behalf of the Council in respect of the two sets of accounts authorise the Director of Finance, as the Council's Section 151 (Local Government Act 1972) Officer and the Chief Executive to sign the letters this enables Grant Thornton to issue audit opinions on the accounts. Two signatures are required to fulfil the International Auditing Standards.
- b) Approve the Cumbria County Council Accounts 2021/22 which incorporates the Cumbria Local Government Pension Scheme Accounts on behalf of the Council.
- c) Approve the Port of Workington Harbour Accounts 2021/22 on behalf of the Council.
- d) Authorise the Director of Finance, as the Council's Section 151 (Local Government Act 1972) Officer and the Chair of the Audit and Assurance Committee to sign the three sets of accounts on behalf of the Council.
- e) Agree the completed Action Plan to the Audit Findings Report for the Council.

7.0 OPTIONS

7.1 Audit and Assurance Committee may either:

7.1.1 Note the report and confirm in respect of the use of estimates (paragraphs 4.10-4.14) that:

- They have been appropriately briefed on how accounting estimates are used;
 - There has been an opportunity to consider the areas where estimates are used;
 - There has been an opportunity to challenge the approach / methodologies; and
 - That the approach taken by management is reasonable.
- or

7.1.2 Request further information in respect of this report and / or the use of estimates.

Pam Duke, Director of Finance (S151 Officer)
21st June 2022

APPENDICES

***Appendix 1* Closure of Accounts 2021/22 – Original High Level Closure Timetable**

IMPLICATIONS

Staffing: None
Financial: None
Property: None
Electoral Division(s): None

Executive Decision

	No
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Key Decision

	No
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If a Key Decision, is the proposal published in the current Forward Plan?

		N/A
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Is the decision exempt from call-in on grounds of urgency?

	No
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If exempt from call-in, has the agreement of the Chair of the relevant Overview and Scrutiny Committee been sought or obtained?

		N/A
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Has this matter been considered by Overview and Scrutiny?
If so, give details below.

	No
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N.B. If an executive decision is made, then a decision cannot be implemented until the expiry of the eighth working day after the date of the meeting – unless the decision is urgent and exempt from call-in and the Head of Member Services and Scrutiny has obtained the necessary approvals.

PREVIOUS RELEVANT COUNCIL OR EXECUTIVE DECISIONS

No previous relevant decisions.

CONSIDERATION BY OVERVIEW AND SCRUTINY

Not considered by Overview and Scrutiny

BACKGROUND PAPERS

No background papers

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