

AUDIT AND ASSURANCE COMMITTEE

Meeting date: 9th March 2023

From: Interim Director of Finance (S151 Officer)

2021/22 ACCOUNTS – FINAL SIGN OFF

1.0 EXECUTIVE SUMMARY

- 1.1 *The Unaudited Accounts for the Council and the separate Cumbria Local Government Pension Scheme (Cumbria LGPS) 2021/22 were published on 15th July 2022 ahead of the statutory deadline of 31st July 2022, in accordance with the Accounts and Audit (Amendment) Regulations 2022.*
- 1.2 *The audit of the Council's 2021/22 Accounts was substantially complete ahead of the 30th November 2022 statutory deadline. A draft Audit Findings Report was presented to the Committee by Grant Thornton on 18th November. The report highlighted two significant areas of the audit that were still to be concluded:*
- *Work on infrastructure assets and depreciation which could not be completed until January 2023 following the implementation of the statutory override and amendments to the Accounting Code of Practice by Government and CIPFA respectively in December 2022.*
 - *Completion of testing of valuation of land and buildings including the review of assets not revalued in year.*
- 1.3 *Members agreed to delegate authority to the Director of Finance, in consultation with the Chair and Vice Chair of the Committee, to approve the audited 2021/22 Statement of Accounts following completion of the audit. This was subject to there being no material changes to the Accounts arising. However a material adjustment to infrastructure depreciation was required as a result of the change in the Code so the Statements are being re-presented to the Committee for their approval. Members have been briefed on the detail of this change in a separate session on 2nd March.*
- 1.4 *Grant Thornton have now completed their audit work on the Council's 2021/22 Accounts and will present their updated Audit Findings Report*

to this meeting (Agenda Item 15).

- 1.5 *Grant Thornton have now completed their audit work for the Cumbria LGPS and will present their Audit Findings Report to this meeting (Agenda Item 15).*

Key Messages

- 1.6 *The key messages of the Audit Findings Reports are that Grant Thornton intend to issue an unqualified audit opinion on both the Cumbria County Council and the Cumbria Local Government Pension Fund (LGPS) 2021/22 Accounts.*
- 1.7 *The Audit Findings Report for the Council concludes that again the Council has achieved “a very high quality of financial reporting, with working papers being to a good standard”. Grant Thornton positively commented on the effective response time to their audit queries.*
- 1.8 *The Council’s draft Statement of Accounts required one amendment to the Core Statements and some minor amendments to the disclosure notes to aid the reader’s understanding of the Accounts, these are detailed in the Audit Findings Report (Agenda item15).*
- 1.9 *There were two further items identified items during the audit where the Council has chosen not to make adjustment for in the primary statements on the grounds of materiality.*
- *During the audit of the Cumbria LGPS it was identified that the employer assets had been overstated by £12.648m. This impacted the Council’s Accounts as its share of the assets is estimated to be £3.9m. This represents 0.45% of the net pension liabilities of the Council.*
 - *An isolated £0.200m typographical error by the Valuer on one property valuation was identified, this resulted in the Property, Plant and Equipment on the Balance Sheet being understated. This £0.200m understatement represents 0.02% of the net book value of £1,295.372m.*
- 1.10 *There are two recommendations for action in the Council’s Audit Findings Report relating to assets that have a nil net book value and infrastructure assets. The recommendations are detailed in para 4.9 together with management’s responses.*
- 1.11 *While the aim is always to provide a completely “clean” set of accounts, it is exceptional for any Council not to have some amendments to their unaudited accounts given the scale of the exercise (resulting in a 270 page document) and the complex and technical requirements for completion.*
- 1.12 *The Audit Findings Report highlights the continuing high standards*

that are being achieved in the quality of the Statement of Accounts. To maintain these high standards, whilst resources are constrained across the Council and in Finance, has been challenging.

1.13 The key messages of the Audit Findings Report (AFR) for Cumbria LGPS are unchanged from 18th November:

- *that Grant Thornton intend to issue an unqualified audit opinion on the 2021/22 Accounts.*
- *that again a very high quality of financial reporting has been achieved, with working papers being to a good standard. Grant Thornton positively commented on the effective response time to their audit queries.*
- *There are no recommendations and the AFR confirms that the accounts contained no material errors to the primary statements.*

2.0 STRATEGIC PLANNING AND EQUALITY IMPLICATIONS

2.1 *The delivery of action plans in response to the findings of audit reviews is essential to ensure the improvement in internal control systems and to ensure that the Council's resources are properly applied, risks are appropriately managed and Council Plan outcomes are achieved.*

3.0 RECOMMENDATION

3.1 *Members are asked to:*

- a) *Note the contents of this report.*
- b) *Consider the matters set out by Grant Thornton in the Audit Findings Report in relation to Cumbria County Council (Agenda Item 15). In particular, to note:*
 - I. *The headline issues arising from the audit (Pages 3 and 4)*
 - II. *Summary of the Audit Findings (Pages 5 to 21)*
 - III. *Value for Money Arrangements (Pages 22 and 23)*
- c) *Consider the matters set out by Grant Thornton in the Audit Findings Report – Cumbria Local Government Pension Scheme Audit 2021/22 (Agenda Item 15). In particular, to note:*
 - I. *The headlines (Page 3)*
 - II. *Summary of the Audit Findings (Page 4)*

- d) Agree the Letters of Representation on behalf of the Council in respect of the two sets of accounts to enable Grant Thornton to issue audit opinions on the accounts and authorise the Director of Finance, as the Council's Section 151 (Local Government Act 1972) Officer to sign the letters. (Agenda items 8a and 8b).**
- e) Approve the Cumbria County Council Accounts 2021/22 which incorporates the Cumbria Local Government Pension Scheme Accounts on behalf of the Council. (Agenda item 8c).**
- f) Authorise the Director of Finance, as the Council's Section 151 (Local Government Act 1972) Officer, to sign the accounts on behalf of the Council. (Agenda Items 8c).**
- g) Agree the completed Action Plan to the Audit Findings Report for the Council (Agenda item 15 page 27.)**

4.0 BACKGROUND

- 4.1 The Unaudited Accounts for the County Council and the Cumbria Local Government Pension Scheme (Cumbria LGPS) were published on 15th July 2022 in line with the Accounts and Audit (Amendment) Regulations 2022. The Chair of the Committee has been briefed throughout the accounts closure process.
- 4.2 Grant Thornton had substantially completed their audit work ahead of the statutory deadline of 30th November 2022 and they presented their draft Audit Findings Report for 2021/22 in respect of the Council's accounts to the Committee on 18th November 2022. Members agreed to delegate authority to the Director of Finance, in consultation with the Chair and Vice Chair of the Committee, to approve the audited 2021/22 Statement of Accounts following completion of the audit. This was subject to there being no material changes to the Accounts arising. However a material adjustment to infrastructure depreciation was required as a result of the change in the Code so the Statements are being re-presented to the Committee for their approval.
- 4.3 This report summarises Grant Thornton's findings on the audit work and only brings to the Committee's attention those matters that have arisen since the draft report on 18th November. It does not add commentary or further explanation to their report, but summarises key messages and provides some context.
- 4.4 The Committee received a private briefing on 2nd March 2023 on the changes required to the Council's 2021/22 Accounts as a result of the issue of a Statutory Instrument by Government and associated update to the 2022/23 Code in respect of infrastructure assets.

Statement of Accounts – Cumbria County Council

- 4.5 In summary, the Audit Findings Report (contained at Agenda Item 15 on today's Agenda) comments that "the Accounts have been prepared to a very high standard and the finance team have produced good working papers and have been responsive to our audit queries".
- 4.6 The Council has chosen to adjust the Accounts in respect of additional depreciation on infrastructure assets of £53.053m as a result of reassessing the useful life from the previous policy of 40 years for all types of infrastructure assets to a useful life more in line with the type of asset. Further details are in paragraphs 4.12 to 4.15)
- 4.7 The Council also made changes to some disclosure notes to aid the reader's understanding for items identified during the audit. These changes are listed for completeness in the Audit Findings Report on pages 31 to 32.
- 4.8 The Audit Findings Report has identified two items (Agenda item 15 Appendix C page 30) that the Council has chosen not to make adjustment for in the primary statements on the grounds of materiality.
- During the audit of the Cumbria LGPS it was identified that the employer assets had been misstated by £12.648m in respect of the estimated valuation of nine investment manager portfolios as the actual valuations weren't available prior to the completion of the unaudited Accounts. This impacted the Council's Accounts as its share of the assets is estimated to be £3.9m. This represents 0.45% of the net pension liabilities of the Council.
 - An isolated £0.200m typographical error by the Valuer on one property valuation was identified, this resulted in the Property, Plant and Equipment on the Balance Sheet being understated. This £0.200m understatement represents 0.02% of the net book value of £1,295.372m. We have introduced a 100% check on all valuations for 2022/23.
- 4.9 Grant Thornton's report contains two recommendations (Agenda item 15 page 27), which are summarised in the table below with the management responses and further information is provided in paragraph 4.10 and 4.11 respectively.

Recommendations	CCC Response
<p><u>Plant, Vehicles and Equipment assets held at nil net book value</u> Undertake a full review of nil net book value assets to ensure that they are operational and that asset lives assigned are appropriate.</p>	<p>In addition to the review carried out on the 2021/22 asset register the year end procedures have been updated to include an annual review of all assets that have been fully depreciated in the previous financial year to ensure that only those that are still operational continue to be carried forward. If an asset is no longer operational it's gross book value and accumulated depreciation will be written out of the asset register.</p>
<p><u>Infrastructure Assets</u> Carry out and document a formal annual impairment review of infrastructure assets. Carry out and document a formal annual review of infrastructure asset lives.</p>	<p>A formal annual impairment review and confirmation that useful asset lives are unchanged for infrastructure assets will be requested for 2022/23 from the Highways Senior Manager.</p>

4.10 The first relates to plant, vehicles and equipment where the audit identified that the Council held a significant number of assets at a nil net book value. In response the Council has undertaken a full review of all assets with a nil net book value when this issue was raised during the audit and as a result have adjusted the gross book value and accumulated depreciation of Plant, Vehicles & Equipment by £35.4m in 2021/22 which represents those assets with a nil net book value. In the Statement of Accounts this only affects the Property, Plant and Equipment disclosure note, there is no impact on the Balance Sheet.

4.11 The second recommendation relates to infrastructure assets and highlights that there should be a formal and documented impairment review and a formal annual review of the useful lives for infrastructure assets.

Accounting for Infrastructure Assets

4.12 At the March 2022 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, resulting in the Balance Sheet being overstated. This became an area of focus for all local authority audit firms.

4.13 Work continued nationally throughout 2022 to identify a solution to this issue. The Secretary of State laid an amendment to the Local Authorities (Capital Finance and Accounting Regulations before Parliament on 30th November 2022 and it came into force on 25th December 2022. The amendment is time-limited and only applies to financial years beginning on or before 1st

April 2024. CIPFA also issued an amendment to the 2022/23 Code which included some commentary on the useful lives of infrastructure asset lives and a range of indicative useful lives for parts of the highways network.

- 4.14 The Code amendment allows authorities to only show the net book value for Infrastructure assets in the Statement of Accounts, which the Council has chosen to do. At the same time the Council took the opportunity to review the useful lives used in accounting for infrastructure assets. In common with other authorities the Council had historically used 40 years to depreciate all infrastructure assets. The Code amendment includes a requirement to depreciate the different categories of infrastructure assets in relation to their useful economic life. The Code identifies a range of acceptable useful lives but Authorities are required to determine locally the useful life based on the actual condition of the assets in the area.
- 4.15 The Council's Highways team undertook a review of Cumbria's highways network for accounting purposes in January 2023 and identified the following as appropriate useful lives for the different infrastructure categories:

Part of the Highways Network	Useful Life (years)
Carriageways	20
Carlisle Northern Development Route (CNDR)	30
Footways and cycle tracks	25
Structures (Bridges, Tunnels and Underpasses)	80
Street Furniture	30
Traffic Management Systems	20

The Carlisle Northern Development Route has been separated from the usual carriageways spend as it was the construction of a completely new section of road rather than the replacement of existing carriageway.

Whole of Government Accounts (WGA)

- 4.16 In pre-covid times HM Treasury would issue the data collection tool in March with submission for the unaudited Accounts by mid June and for the audited Accounts by the end of August. There were delays to the 2020/21 WGA which was finally issued in mid-2022, a full year after the normal timetabled deadlines.
- 4.17 HM Treasury issued the 2021/22 data collection tool on 30th January 2023 with a completion date of 28th February 2023 for the initial submission which is then be followed by a period of time for the audit to be completed. However, HM Treasury have retained the £2billion threshold for the completion of an audit of WGA, the Council falls below this threshold so does not require the WGA return to be audited.

Value for Money

4.18 As in previous years the Auditors will provide a Value for Money (VFM) opinion. The NAO Code of Audit Practice for England 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.

The Code requires a narrative VFM opinion and increases the focus on all three areas, particularly financial sustainability. This is reported elsewhere on today's agenda as part of the Auditor's Annual Report. The Audit Findings Report contains the conclusion that the auditors have not identified any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources and are satisfied the Council has made proper arrangements. However the full report is not yet available at the time of writing so officers are unable to comment further.

Conclusion and Closure of the 2021/22 Audit

4.19 The 2021/22 audit can now be formally closed as the accounting for infrastructure assets has been resolved and the VFM audit is complete and has been reported to Audit & Assurance Committee today.

Statement of Accounts – Cumbria Local Government Pension Scheme

4.20 In accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code) the Council's Statement of Accounts contain, at section 10, the Financial Statements of the Cumbria Local Government Pension Scheme (Cumbria LGPS). In addition to this, the Council's accounts also include the attributable share of the pension scheme assets associated with their underlying obligations.

4.21 Under International Standards of Audit (UK) and the National Audit Office Code of Audit Practice Grant Thornton are required to report their opinion on the financial statements of Cumbria LGPS. To that end, as in previous years, Grant Thornton have issued a separate Audit Findings Report (AFR) for Cumbria LGPS. The Cumbria LGPS AFR was reported to the 18th November meeting.

4.22 As a reminder the AFR for the Cumbria LGPS contained no recommendations for future improvements. The AFR also finds that the Accounts for 2021/22 contained no material errors affecting the primary statements and that the Accounts have been produced to a very high

standard and the finance team have produced good working papers and have been responsive to our audit queries.

- 4.23 A comprehensive report on the performance of the Cumbria Local Government Pension Scheme in 2021/22 has been provided in the Annual Report which was published by December 2022 and is available on the Council's website.

Letters of Representation

- 4.24 Before issuing the opinion upon the Council's Accounts, in accordance with auditing standards, the Auditor is required to ask the Council for its written representations about the Council's financial statements and governance arrangements.
- 4.25 The Audit and Assurance Committee is asked to confirm on behalf of the Council that the letters have been discussed and agreed, and authorise the Director of Finance (s151 Officer) to sign the letters on behalf of the Council. To fulfil the International Auditing Standards two signatures will be required on the Letter of Representation, these will be the Director of Finance (s151 Officer) and Chief Executive.
- 4.26 The draft letters of Representation in respect of the Council's Accounts are attached as Agenda item 8c and for the Cumbria LGPS as Agenda Item 8b. If any further amendments are required then these will be presented on the day.
- 4.27 Full copies of the updated audited Statement of Accounts 2021/22 are attached to this report (Agenda item 8c).
- 4.28 The Audited Accounts 2021/22 will also be published shortly on the website upon receipt of the signed Auditor's opinion. This is a statutory requirement in accordance with the Accounts and Audit Regulations.

Jo Moore
Interim Director of Finance (s151 Officer)
28th February 2023

APPENDICES

No appendices

IMPLICATIONS

Electoral Division(s): All

Executive Decision

	No
--	----

Key Decision

	No
--	----

If a Key Decision, is the proposal published in the current Forward Plan?

		N/A
--	--	-----

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

	No
--	----

If exempt from call-in, has the agreement of the Chair of the relevant Overview and Scrutiny Committee been sought or obtained?

		N/A
--	--	-----

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

	No
--	----

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

None

Report Authors:

Fiona Parker, Group Accountant – Corporate Accounting
fiona.parker@cumbria.gov.uk

Alison Clark, Senior Manager – Pensions & Financial Services
alison.clark2@cumbria.gov.uk