

AUDIT AND ASSURANCE COMMITTEE

Meeting date: 9th March 2023

From: Interim Director of Finance (S151 Officer)

ACCOUNTS PREPARATION 2022/23

1.0 EXECUTIVE SUMMARY

- 1.1 ***This report summarises the overall approach and progress to date on the preparations for the Council's and Cumbria Local Government Pension Scheme Statement of Accounts 2022/23 and the Council's Value for Money conclusion.***
- 1.2 ***The production of the Statement of Accounts is an annual exercise and is the final stage of the financial management cycle for the Council. By its nature it is a very technical exercise but at its core it looks back at the Council's financial performance for the previous year and gives an overview of the strength of its financial position at the end of that year.***
- 1.3 ***It relies on the significant level of work that is carried out across Finance and the wider organisation during the year in managing and monitoring the Council's financial and non-financial position.***
- 1.4 ***It is a significant project for the Council involving many officers across the Council and led by Finance. In preparation for the closure of accounts for 2022/23 a comprehensive timetable, covering both revenue and capital, has been produced adopting the good practice established in previous years, together with proforma documentation for all Finance staff to use.***
- 1.5 ***To maintain these high standards during 2022/23, whilst resources are constrained across the Council and in Finance and necessarily focused on the Local Government Reorganisation, has been very challenging. The core processes and procedures underpinning the closure process are unchanged from previous years and they have been monitored and remain strong.***
- 1.6 ***As the Council will cease to exist from 1st April 2023, the preparation of the statutory accounts for 2022/23 will be undertaken by Finance staff within the new Westmorland & Furness unitary authority. However, a flexible approach will be adopted so that staff transferring to the new***

Cumberland unitary authority and the Cumbria Fire & Rescue Service will also be heavily involved in the closure process during April to minimise any loss of County Council corporate knowledge.

- 1.7 ***The closure timetable attached is still considered to be achievable for 2022/23, particularly given that this is a year with minimal new technical changes. The deadline for the sign off of the unaudited accounts by the Director of Finance is currently 31st May 2023 and the completion of the audit should be by 30th September 2023. Department for Levelling Up, Housing and Communities (DLUHC) have recently issued a short consultation in respect of the publication date for the 2022/23 unaudited financial statements and is keen to hear views on whether the date should remain at 31st May or not. The outcome of the consultation is expected in late March 2023.***
- 1.8 ***The 2022/23 Statement of Accounts is the final year of Cumbria County Council and will be reported through to the Audit Committees in the new authorities. These Accounts, alongside those of the District Councils, will form the opening Balance Sheets of the new authorities.***
- 1.9 ***The responsibility for the approval of the 2022/23 Statement of Accounts won't rest with this Committee and this report is therefore for information only.***

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 to note the following:***
 - a. ***High level timetable for the closedown of the Council's and the Cumbria Local Government Pension Scheme 2022/23 accounts including potential risks. (paragraph 4.7 and 5.4).***
 - b. ***Value For Money (VFM) approach to determine the VFM conclusion as part of the final accounts process (paragraph 4.36 to 4.38).***

4.0 BACKGROUND

Cumbria County Council Statement of Accounts

Preparations for Closure of 2022/23 Accounts

The closure of accounts process is continually being reviewed and refined each year to identify areas that will enable the Council to meet the statutory timescales whilst maintaining good quality accounts. This final year will be particularly challenging as Council staff, including the Finance Team, will be transferring to new authorities where the closure of the County Council's Accounts.

- 4.1 It is helpful that there are no new significant technical accounting changes in the 2022/23 Code although preparations for the implementation of IFRS16 Leases is still on the horizon. Authorities have been encouraged to adopt this in advance of the implementation date of 1st April 2024.
- 4.2 The Accounts and Audit (Amendment) Regulations 2022 is an amendment to the Accounts and Audit Regulations 2015. This amendment changed the date for the publication of the audited accounts to 30th September for financial years beginning in 2022 to 2027 i.e. 2022/23 through to 2027/28. It was, however, silent on any corresponding change to the date for publication of the unaudited accounts, which therefore reverts to 31st May as per the Accounts and Audit Regulations 2015.
- 4.3 On 16th February Department for Levelling Up, Housing and Communities (DLUHC) issued a short consultation (closes 2nd March) in respect of the publication date for the 2022/23 unaudited financial statements and is keen to hear views on whether the date should remain at 31st May or not.
- 4.4 Until the publication date is clarified the plan for 2022/23 assumes it will be 31st May and will therefore follow a similar timetable to 2019/20. The deadline for a first complete draft of the Statement of Accounts will be 19th May. The unaudited accounts will be authorised for issue by the Director of Finance prior to publication on 31st May.
- 4.5 In preparing the timetable for 2022/23 and considering the impact upon the preparation of the Accounts, the availability of information from the external sources listed below has been taken into account in the current timetable.
 - **Information from District Councils** - Business Rates and Council Tax information is required from all six District Councils, the timetable assumes that estimates will be used (as in previous years) with confirmation prior to publication of the Accounts. The impact of any delays in receiving the information is minimal as there isn't a material impact on the County Council's Accounts.
 - **LGPS IAS19 information from Mercers** – the Council has again opted to have a single run of the IAS19 in April based on actual data for the year and the market conditions at 31st March 2023. The figures are due to be received in the first week of May. There will be a second

run in late August if there had been a significant change in the market conditions at year end or Pension Fund investment returns. The changes, if material, will be incorporated in the audited Statement of Accounts.

- **Cumbria County Holdings Ltd (CCHL)** – as a 100% owned subsidiary CCHL provide group accounts for consolidation with the Council’s Accounts. CCHL have indicated that they expect to be in a position to provide draft group Accounts in mid-May allowing the current publication deadline of 31st May to be met.
- **Cumbria Pension Fund** – whilst the Pension Fund Accounts are separate from the Council’s they are published at the same time as part of one document which consists of the Council’s Accounts, the Group Accounts, the Firefighters Pension Fund and the Cumbria LGPS Fund. To allow time for there to be more certainty on the valuation of some assets the LGPS have set a date of 16th May as the cut-off by which time all estimates within the accounts will be revised to reflect any non-trivial adjustments advised to the Pension Fund. This cut-off date will allow for any adjustments to be made and the draft Accounts to be finalised by 31st May.

4.6 The production of the accounts is a significant project for the Council involving many officers across the Council led by the Finance team. In preparation for the closure of accounts for 2022/23 a comprehensive timetable, covering both revenue and capital, has been produced, building upon the good practice established in previous years, together with proforma documentation for all Finance staff to use. The 2022/23 Accounts will be even more challenging as Council staff TUPE to their new authorities.

4.7 Copies of the documentation have been placed on the Finance SharePoint site for all Finance staff to access. The detailed timetable and proforma are circulated and collated through the Directorate Finance teams. A high-level summary of the timetable is attached at **Appendix 1** for information. Key dates are as follows:

Date	Task
21 st April	Directorate finance teams to complete all accounting entries and produce their provisional outturn report.
27 th April	Directorate working papers and analytical review completed
6 th June	First draft of statement of accounts to be produced for review. Briefing to Director of Finance on statements of accounts.
19 th May	Unaudited Statement of Accounts approved by Director of Finance, published on the website and passed to Grant Thornton together with working papers
30 th September	Statutory deadline for completion of the external audit

4.8 Each year, workshops involving all staff who are key to the closure of the Council’s Accounts are held in March. In addition, closure of accounts is a standing item on the Accountancy Management Team agenda.

- 4.9 Regular meetings are scheduled with Grant Thornton (monthly from January until the end of May and weekly from the beginning of the audit until the audit is completed) with the Group Accountant – Corporate Accounting. The meetings provide the opportunity to raise issues early with a view to a prompt resolution before the year end.
- 4.10 The date for external audit are still to be confirmed but will take place in the period June to September with the audit findings being reported to Westmorland and Furness Council.
- 4.11 It is currently anticipated that, whilst staff engaged by the County Council will be transferring to different authorities that, as far as possible, they will continue to engage in the accounts closure process.

Significant Risks Identified by Grant Thornton

- 4.12 A formal meeting has not yet been held with Grant Thornton to begin planning for the 2022/23 audit but some preparations have been made in the form of information requests for the interim audit which will inform the 2022/23 audit plan.
- 4.13 Grant Thornton have indicated that the significant risks that will be identified in their Audit Planning Report are expected to be in the same areas as 2021/22 which were:
- **Management over-ride of controls** - presumed risk across all audit plans. In response to this risk a detailed testing of journal entries, estimates and judgements made by management would be carried out.
 - **Valuation of land and buildings**
 - **Valuation of pension fund net liability**
 - **ISA 240 Improper expenditure recognition** - presumed risk of income and expenditure recognition around the way that funding streams (e.g. Covid-19) should be reflected in the accounts.
- 5.1 The accounting related issues identified have been included in the planning for the preparation of the 2022/23 statement of accounts, clarification from the External Auditor may result in an amendment to specific work plans. Details of changes to the significant risks identified (including any further significant risks identified) as well as further detail on all of those risks will be reflected in Grant Thornton's audit plan for 2022/23. The audit plan will be shared with management and those charged with governance. Auditing Standards require Grant Thornton to complete their planning work before sharing their audit plan and it is anticipated that the bulk of this planning work will be delivered in late March and early April 2023.

Value for Money Opinion

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

4.15 Discussions have not yet been held with Grant Thornton on the VFM work for 2022/23 and how it will be reported.

5.0 Cumbria Local Government Pension Scheme (“The Fund”)

Audit Findings Report - 2021/22 Action Plan

5.2 The audit work undertaken by Grant Thornton identified no significant control weaknesses within the Local Government Pension Scheme (LGPS). No recommendations were included within its Audit Findings Report.

Main changes to accounting for Local Government Pension Schemes for 2022/23

5.3 There have been no material changes to accounting rules for 2022/23 affecting the Local Government Pension Scheme.

5.4 The Fund will ensure that it continues to comply fully with the required disclosures within its 2022/23 financial statements.

2022/23 Closure Plan and Key Dates (LGPS)

5.5 For the 2022/23 Cumbria LGPS Financial Statements it is intended to follow the same process as in previous years. The Fund will continue with its approach to set a cut-off date (16th May 2023) at which time all estimates within the accounts will be revised to reflect any non-trivial adjustments advised to the Pension Fund by this date.

Significant Risks Identified by Grant Thornton

5.6 Grant Thornton have given early indication that the significant risks that will be identified in their Audit Planning Report are expected to include the same areas of significant risk that were identified in 2021/22. These were:

- potential for management override of controls;
- valuation of “Level 3” investments; and
- valuation of Direct Held Property Investments

5.7 Details of changes to the significant risks identified (including any further significant risks identified) as well as further detail on all of those risks will be reflected in Grant Thornton’s audit plan. The audit plan will be shared with management and those charged with governance. Auditing Standards require Grant Thornton to complete their planning work before sharing their

audit plan and it is anticipated that the bulk of this planning work will be delivered in late March and early April 2023.

Risks identified by the Fund for 2022/23 closure of accounts

- 5.8 In producing the 2021/22 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 will include a similar estimate in production of the 2022/23 accounts. However, details of the resolution to McCloud are expected to be finalised during 2023/24. Depending upon the timing of this announcement Officers may need to reconsider the impact of the resolution and potentially adjust the accounting entries.
- 5.9 There is a risk that the additional workload arising as a result of Local Government Reorganisation in Cumbria impacts on the 2022/23 closure of accounts work. Significant work is being undertaken to mitigate this risk as far as possible.

6.0 OPTIONS

- 6.1 Audit and Assurance Committee to note the report.

Jo Moore
Director of Finance (S151 Officer)
28th February 2023

Please ensure that every part of this section where there is an asterisk* is completed in accordance with the instructions before sending the report to Member Services, following which please delete this sentence.

APPENDICES

***Appendix 1* Closure of Accounts 2022/23 – High Level Closure Timetable**

IMPLICATIONS

Electoral Division(s): All

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.

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

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