

FINANCE, AUDIT AND RISK COMMITTEE
13 September 2023

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: STATEMENT OF ACCOUNTS 2021/22

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: *NON-EXECUTIVE*

COUNCIL PRIORITY: SUSTAINABILITY

1. EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to ask Finance, Audit and Risk Committee to approve the audited Statement of Accounts for 2021/22. The Statement of Accounts has been subject to external audit and a draft is enclosed with the report as Appendix A.

2. RECOMMENDATIONS

- 2.1. That the Committee note the 2021/22 Annual Statement of Accounts as set out in Appendix A.
- 2.2. That the Committee note the audit work completed to date, the findings from that work and the resultant changes made to the Statement of Accounts.
- 2.3. That, the Committee approves the 2021/22 Annual Statement of Accounts, and that the Chair of the Committee can sign the Statement of Accounts to confirm that they have been approved by the Committee.

3. REASONS FOR RECOMMENDATIONS

- 3.1. To ensure that the Council abides by the Audit and Account Regulations 2015, which require the approval and publication of audited Statement of Accounts.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. None. The Authority is required to prepare an annual Statement of Accounts and must follow accounting practices guidance issued by the Secretary of State and follow 'proper practices' governing the preparation of the annual Statement of Accounts (Section 21 of the Local Government Act 2003).

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. Consultation on the Statement of Accounts is not required.
- 5.2. The draft Statement of Accounts 2020/21 was published on the Council's website at the end of July 2022.

- 5.3. The accounts are subject to audit by the Council's External Auditors, Ernst and Young LLP (EY).
- 5.4. Under the Local Audit and Accountability Act 2014 (sections 26 and 27) and the Accounts and Audit Regulations 2015 (sections 14 and 15), members of the public and Local Government electors have certain rights in respect of the audit process. This includes inspection of the accounts, associated documents and being able to ask questions. This opportunity was advertised in accordance with the regulations. No one took up this opportunity.

6. FORWARD PLAN

- 6.1. This report does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan.

7. BACKGROUND

- 7.1. The Council is legally required to annually produce a statement of accounts detailing the financial activities for the year and overall financial position as at 31st March. Generally it has a statutory responsibility to publish its draft Statement of Accounts by 31st May, and that an audited version should be approved by 31st July 2022. Due to the continuing issues that audit firms have with resourcing, and trying to catch up from Covid-19, these deadlines have been extended. The Council published unaudited accounts by the revised deadline of 31 July 2022. An audited version should have been approved by 30th November 2022. This was delayed by resourcing issues at Ernst & Young LLP. In line with legislation, the Council published a notice on its website detailing this delay, alongside a letter from Ernst and Young: [Statement of Accounts | North Herts Council \(north-herts.gov.uk\)](https://www.north-herts.gov.uk).
- 7.2. The Council's external auditors, Ernst & Young LLP (EY) commenced their audit work in November 2022.
- 7.3. The Statement of Accounts and the Audit Results Report were initially presented to the Committee for approval in March 2022. At that time there were remaining audit issues to be resolved, but it was hoped that they would be resolved promptly, and the Committee delegated approval to the Chair. In the end it took much longer to resolve, so the Accounts are being brought back to the Committee for approval.

8. RELEVANT CONSIDERATIONS

- 8.1. The audited version of the Statement of Accounts is attached at Appendix A. The Narrative Report within the Statement of Accounts provides an overview of how the accounts are presented and highlights the most significant matters. Changes from the draft unaudited accounts published in July 2021 are highlighted in green. The final signed version of the accounts will have these highlights removed.
- 8.2. The Audit Results Report from Ernst and Young, will be considered immediately prior to this item. That report highlights the significant recommended changes to the accounts that had been identified during the audit. Ernst and Young will also provide an update on any progress since the Audit Results Report was written (e.g., in relation to the remaining pension considerations). We have the choice as to whether we adjust for the changes that are recommended. If we did not adjust for a material error, then that would lead to a qualified audit opinion. For non-material errors, they would just be noted as unadjusted in the Audit Results Report. We have chosen to adjust for the majority of errors (including all the material errors) that have been identified. In summary, this includes:

- The expenditure on the redevelopment of Hitchin Town Hall and Museum had remained on the asset register after the project had been completed and a revaluation of the completed asset had been carried out (in 2018/19). At the point of that revaluation, the combined value of the previous valuation plus the sum of the cost of the works carried out, should have been replaced by the new valuation. This means that the asset value is over-stated by £5.6million. The result of correcting this is that asset values are reduced by £5.6million, and this is off-set by changes to the Revaluation Reserve (to remove the balances that had previously been shown as an upwards valuation) and the Capital Adjustment Account (for the remaining difference). There is no impact on General Fund balances. The asset register has been reviewed to check for any other similar errors. These adjustments are reflected in Appendix A.
- An Asset held for Sale had been subject to a downwards valuation of £1.1million. This asset had an existing revaluation reserve balance from before it had been classified as being held for sale (i.e., it had previously been revalued upwards). For most asset classes, where there is an existing revaluation reserve balance, you would off-set the downwards revaluation against the previous upwards valuation. That is the treatment that was in the draft accounts, but that is incorrect for an Asset held for Sale. The downwards revaluation is charged to the Income and Expenditure account, before being reversed through to the Capital Adjustment Account, so that there is no impact on the General Fund. This has been corrected in Appendix A.
- £2.6 million unspent balance of Covid-19 Additional Relief Fund was recorded as short-term creditors instead of grants received in advance. This has been corrected in the accounts appended to this report.
- Our calculation of certain items within the cash-flow statement was not in line with the CIPFA Code and we have therefore corrected this. The correction has not changed the opening and closing cash balances recorded in the draft accounts. These adjustments are reflected in Appendix A.
- As a result of the publication of the 2022 Triennial Pension Valuation Report in March 2023, we obtained an updated IAS19 report. This included material changes, which we have adjusted for. These are included in Appendix A.
- £1.5 million assets were incorrectly classified as other land and buildings instead of community assets, infrastructure assets and plant and equipment. These are adjusted for in Appendix A.

8.3 On pages 35 and 36 of Audit Results Report, Ernst and Young make some recommendations in relation to the Council's financial controls. We have carried out a review of the fixed asset register, including changing how it operates to help ensure correct accounting treatment. This has identified a few other assets that have been duplicated in the same way (although the values concerned are much lower). When we implement a new finance system next year, it will include a fixed asset module which will provide improved automation and controls. In relation to the cash-flow recommendation, we will keep up to date with Code requirements, and undertake training on an annual basis.

8.4 Ernst and Young may still be finalising their audit work at the time of the Committee meeting. If there are still outstanding matters, then the recommendation may need to change to seek delegation to the Chair for final approval. Once the Accounts have been approved then the following will happen. The Chair will sign page 1 of the Statement of Accounts to confirm that they have been approved by the Committee. The Service Director- Resources (as the Council's Chief Finance Officer) will sign the Statement of Responsibilities (page 1 of Appendix A) to certify that the statement of accounts give a true and fair view of the financial position of the Authority as at 31 March 2022 and its income and expenditure for the year then ended. The Service Director- Resources (as Chief Finance Officer) and the Chair of the Committee will also sign the Letter of

Representation on behalf of the Council. The wording of the Letter of Representation can be found as an appendix to the final Audit Results Report document presented by Ernst and Young this evening.

- 8.5 Officers are not aware of any other events (beyond the triennial pension valuation already referenced) that have occurred since the year end that provide additional evidence of conditions that existed at 31st March 2022 or materially affect the amounts in the Statement of Accounts. In particular, there has not been any subsequent event that would require an amendment to the contingent assets and liabilities listed in the accounts.
- 8.6 The Annual Governance Statement (AGS) is required to be approved in advance of approving the Statement of Accounts, and was approved at the meeting of the Committee in March 2023. The Council will ensure that the publication of the Statement of Accounts is accompanied by the publication of the Annual Governance Statement.

9. LEGAL IMPLICATIONS

- 9.1. The Accounts and Audit Regulations 2015 determine how and when the Annual Statement of Accounts should be approved and published. For 2021/22 the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 have amended the dates by which the accounts have to be prepared and approved.
- 9.2. The Accounts and Audit Regulations 2015 (section 9) state the accounts should be signed and dated by the Member presiding at the meeting which formally approves the accounts. Under the constitution, the Finance, Audit & Risk Committee has responsibility to “review and approve the Statement of Accounts” (constitution 10.1.5a).
- 9.3. The Local Audit and Accountability Act 2014 (sections 26 and 27) and the Accounts and Audit Regulations 2015 (sections 14 and 15) grant members of the public and Local Government electors certain rights in respect of the audit process.
- 9.4. The Local Government Act 2003 (section 21) determines that the Council must follow ‘proper practices’ in the preparation of the annual Statement of Accounts

10. FINANCIAL IMPLICATIONS

- 10.1. The outturn reports were presented to Members in June 2022. These provided the end of year position of the General Fund, other reserves and capital expenditure. None of the changes to the Statement of Accounts identified from the audit have resulted in any change to the outturn position reported.

11. RISK IMPLICATIONS

- 11.1. The process of compiling the Statement of Accounts is a control mechanism to help mitigate against the risk of poor financial management and is a way the Council can demonstrate to the public how it has managed its resources and acted in its responsibility as a steward of public funds.

12. EQUALITIES IMPLICATIONS

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2. There are no equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

13.1. The Social Value Act and “go local” policy do not apply to this report.

14. ENVIRONMENTAL IMPLICATIONS

14.1. There are no known Environmental impacts or requirements that apply to this report.

15. HUMAN RESOURCE IMPLICATIONS

15.1. There are no direct human resource implications arising from this report.

16. APPENDICES

16.1. Appendix A - Statement of Accounts 2021/22

17. CONTACT OFFICERS

17.1. Ian Couper, Service Director – Resources
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17.2. Antonio Ciampa, Accountancy Manager
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18. BACKGROUND PAPERS

18.1. None.