

# AUDIT COMMITTEE

## Statement of Accounts Update

25 May 2022

## Report of Chief Finance Officer

### PURPOSE OF REPORT

To provide the Committee with an updated position regarding the conclusion of the audit of the 2019/20 and 2020/21 Statement of Accounts and details of progress in the preparation of the Statement of Accounts for the year ended 31st March 2022.

**This report is public.**

### RECOMMENDATIONS

The Audit Committee is recommended to note the following areas

1. The progress of the audit of the 2019/20 & 2020/21 Statement of Accounts
2. The preparation of the Statement of Accounts for the year ended 31st March 2022.

#### 1.0 INTRODUCTION

1.1 Members will be aware of the long standing issues in relation to the 2019/20 and 2020/21 Statement of Accounts. This paper provides an update on current progress as well as providing information on a national issue and alerts members to the potential impact on the production of the 2021/22 Financial Statements.

#### 2.0 2019/20 STATEMENT OF ACCOUNTS UPDATED POSITION

2.1 The only significant matter that remains outstanding is in regard to Note 42: Contingent Liabilities, which as the Committee will recall was subject to 2 formal objections by local Council Taxpayers. The External Auditor considered the objection in accordance with the National Audit Office's Audit Guidance Note 4 and has formally written to the objectors stating his grounds for not considering the objection.

2.2 In order to finally conclude the audit the External Auditors have requested that the Council seek assurance from a number of external 3<sup>rd</sup> parties. Officers from Legal and Economic Growth and Regeneration services have been collating this information with two of the assurances requested having been presented to the External Auditors for consideration. Although every endeavour has been made by officers to obtain the final letter of assurance, we have been informed that due to illness and leave commitments it will not be available until June.

- 2.3 Whilst this is extremely disappointing for all concerned it is hoped that once received it will finally allow the audit to be concluded. I am sure the Committee appreciates all efforts by Council officers in working to finally resolve this long running, contentious and sensitive issue.

### **3.0 2020/21 STATEMENT OF ACCOUNTS UPDATED POSITION**

- 3.1 The External Auditor presented his plan for the audit of the 2020/21 Financial Statements for consideration by this Committee at its last meeting (23 March 2022). Although a significant body of audit work has been performed, one area highlighted in the audit plan which appears to have yet been commenced is the audit of the significant risk in relation to Property Valuations.
- 3.2 The Council's Housing Revenue Account dwellings are valued on the basis of Existing Use Value for Social Housing (EUV-SH) which was first introduced on 01 April 2001, following the introduction of Resource Accounting in the HRA. Values are then rebased annually, with periodic full revaluation exercises every 5 years, the fifth of which updated all values to 01 April 2020. This has resulted in a net increase in asset values of £5.391M in the year across the Council's estimated 3,600 dwellings.
- 3.3 All audit matters that have been brought to officers' attention to date have been addressed and any required revisions made to the draft 2020/21 financial statements. The Committee should note that given the potential volume and complexity of transactions relating to Property Valuations that any substantial issues reported at this late stage may well have a significant impact on the Council's ability to deliver the 2021/22 Financial Statements to the 31 July deadline.
- 3.4 The Committee will also be aware that similarly to the 2019/20 statements Note 42: Contingent Liabilities, was subject to formal objections by local Council Taxpayers. The External Auditor is still considering the objections in accordance with regulatory guidance but it is hoped that the information supplied will insist in resolving both the 2019/20 and 2020/21 matters. Members, should note that it is expected that additional costs to the Council in dealing with these on-going objections is likely to exceed £20K.

### **4.0 2021/22 STATEMENT OF ACCOUNTS POSITION –**

- 4.1 At the time of writing this report, the draft 2021/22 Statement of Accounts are still being compiled. Budget guidance notes, internal timetabling has been distributed and progress being monitored.
- 4.2 Once finalised it is intended that they will be published on the Council's website by 31 July 2022, subject to matters at paragraph 6 and a link sent to all Council Members, with paper copies being made available on request.
- 4.2 As noted previously the deadline for publication of audited accounts has been revised to 30 November 2022. As a result, during the period August to November, our External Auditors, should conduct an audit of the accounts. Although both officers and audit staff will work to ensure the deadline is achieved this short time frame will provide a challenge.

## 5.0 NATIONAL ISSUE - INFRASTRUCTURE ASSETS

- 5.1 In early March 2022 CIPFA was made aware of issues relating to the derecognition of parts of infrastructure assets. Specifically, where Councils have incurred on the replacement, or enhancement of existing infrastructure assets. Council's may not be readily able to identify the cost and accumulated depreciation relating to the original asset components being replaced or enhanced. This applies particularly in relation to highways infrastructure assets, where the engineering records used to maintain, replace and add to the infrastructure assets have not been designed to map against identifiable components. There are also information deficits in relation to historical expenditure on assets created before 1994/95.
- 5.2 In addition some Council's may not be considering, or accounting for impairments of infrastructure and some may not be identifying and applying appropriate useful lives to calculate depreciation.
- 5.3 Whilst this is a national issue which may be considered a greater risk for upper tier Councils with Highway infrastructure assets the City Council has infrastructure assets with a Net Book Value (NBV) of £41M as outline in the table below

<b>Infrastructure Assets</b>	<b>£M</b>
Gross Book Value (GBV)	65.35
Accumulated Depreciation	-24.17
Net Book Value (NBV)	41.18
Sea & River Defences	12.62
Wave Reflection Wall	10.81
Caton Road Flood Relief	9.95
River Lune Millennium Park	2.23
Lancaster Square Routes	1.61
Cycleways	1.43
Other	2.54
	<u>41.18</u>

- 5.4 Many of these assets have been created in recent years and so the supporting historical cost information will be available and many have been subject to audit in previous years. However, there remains the potential for issues around older and replaced assets which both officers and the external auditors will need to consider.
- 5.5 CIPFA understands that the issue is pressing as without resolution it has potential to result in qualification of significant numbers of Councils financial statements. Several "urgent meetings" have been held in an attempt to resolve the issues and consultation papers for temporary changes to the Accounting Code have been issued. However, responses are required by 14 June. This does not afford a great deal of time to implement and account for the impact of any directions ahead of the 31 July deadline.

## **6.0 IMPACT OF OUTSTANDING WORK**

- 6.1 The unresolved issues currently surrounding infrastructure assets and the yet unaudited balances within the 2020/21 accounts creates several significant issues for the Council.
- 6.2 Firstly, CIPFA have advised the issues with infrastructure asset apply to all open, or unsigned Statement of Accounts. As noted above as both the 2019/20 and 2020/21 Statement of Accounts remain open there is the potential for even further delay, or even qualification.
- 6.3 Secondly, operationally we are unable to close our asset register and prepare the capital entries for the 2021/22 Financial Statements until both the issues around infrastructure assets and the auditors work on its 2020/21 significant property valuation risks have been concluded.
- 6.4 Given delay and potential complexity and volume of these transactions there is a risk that without timely resolution officers will **NOT** be able to produce of the Council's draft 2021/22 Financial Statements by the 31 July deadline.

## **7.0 OPTIONS AND OPTIONS ANALYSIS**

- 7.1 As the report is for noting no alternative options are put forward, but the Committee could make supplementary recommendations regarding any matters arising.

## **8.0 CONCLUSION**

- 8.1 Members should note the progress and matters arising to date.

### **CONCLUSION OF IMPACT ASSESSMENT (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):**

No implications directly arising.

### **LEGAL IMPLICATIONS**

S27 of the Local Audit and Accountability Act 2014 makes provision for an elector of the Council's area to make an objection to the local auditor in respect of the grounds set out at paragraph 3.4 of this Report. On receipt of an objection the local auditor must decide (a) whether to consider the objection, and (b) if the auditor does so, whether to take action within paragraph (a) and (b) of s27(1) in response.

In considering any objection, the auditor will need to have regard to the provisions of the 2014 Act and the code of audit practice applicable to the Council. The Local auditor must in carrying out functions under the 2014 Act, have regard to guidance issued by the Comptroller and Auditor General under paragraph 9 of Schedule 6 of the 2014 Act. This includes the Auditor Guidance Note 4.

An objector aggrieved by a decision of a local auditor not to consider the objection or not to apply for a declaration under s28 of the 2014 Act may within 6 weeks from notification of the decision require the auditor to provide written reasons for the decision and within 21 days from receipt of the written reasons may appeal against the decision to the court.

**FINANCIAL IMPLICATIONS**

There are no financial implication flowing directly from this report.  
However, Member's should be aware of the addition audit fee's that may accrue because of the objection to the financial statements.

**OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces**

No implications directly arising.

**SECTION 151 OFFICER'S COMMENTS**

This report forms part of the Chief Finance Officer's responsibilities, under his role as s151 Officer.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments

**BACKGROUND PAPERS**

27 August 2020

<https://committeeadmin.lancaster.gov.uk/documents/s77442/Statement%20of%20Accounts%202019-20%20Final.pdf>

Statement of Accounts 2019/20

<http://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

Statement of Accounts 2020/21

<http://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

External Audit Plan 2020/21

[Agenda for Audit Committee on Wednesday, 23rd March 2022, 6.10 p.m. - Lancaster City Council](#)

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