# APPROVAL OF ACCOUNTS 2021/22

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## 1. Summary/link to the Annual Plan

**1.1** The Accounts and Audit (Amendment) Regulations 2022 states that, as part of the formal process of closing the County Council's 2021/22 accounts the Chief Financial Officer is required to approve the draft Statement of Accounts by 31 July and the Audit Committee is required to approve the audited accounts by 30 November 2022.

## 2. Issues for consideration

**2.1** Members are asked to:

- **Consider** the matters raised in Grant Thornton's Audit Findings Report.
- **Approve** the updated Annual Governance Statement as included within the Statement of Accounts (section 6).
- **Consider** the updated Statement of Accounts for 2021/22 (Appendix A); and
- **Approve** the Letter of Representation on behalf of the Council. (section 5.1 and Appendix B).

Members are also asked to note the position of the External Auditors assessment of the Authority's Value for Money (VFM) judgment (section 7).

## 3. Background – Statement of Accounts

**3.1** The Accounts and Audit Regulations issued by the Secretary of State set out the requirements for the preparation and publication of final accounts. These regulations include the requirement for the formal approval, by a full Committee, of the Authority's Statement of Accounts.

**3.2** The attached Statement of Accounts (Appendix A) has been prepared in accordance with the current Code of Practice on Local Authority Accounting in Great Britain (The Code). The Statement is required to present a true and fair view of the County Council's financial position as at 31 March 2022 and also the income and expenditure for the financial year 2021/22. A separate Statement of Accounts has been produced for the Pension Fund.

**3.3** The Statement of Accounts was available for public inspection during the 30-working day period running from 1 August to 12 September 2022.

**3.4** The Authority's external auditors, Grant Thornton, started their detailed examination of the Statement of Accounts on 1 August 2022. There are some elements of the audit that remain outstanding at this point in relation to Highways Infrastructure assets that are awaiting a statutory override. The statutory instrument is currently forecast to come into legislation on 25th December 2022, which means the reporting date of 30th November will not be met. The Council are in discussions with Grant Thornton, and an update to the Committee will be made when details of the override are confirmed.

**The Committee will be unable to approve the accounts for 2021/22 until the override comes into legislation, as the statutory override is likely to cause a material change in the presentation of the accounts.**

The Audit Findings Report based on work completed to date has been published and will be presented in the draft Audit Findings Report published within the same suite of agenda papers.

**3.5** Grant Thornton are required to carry out a review of the Whole of Government (WGA) consolidation pack (on behalf of the National Audit Office). At the time of writing, central guidance has yet to be received for the 2021/22 financial year so that work is not yet complete.

Grant Thornton are only able to formally conclude the audit and issue their final Audit Report and Audit Certificate if they have received a copy of the Statement of Accounts as approved by this Committee and all elements of their work are concluded.

Members will be notified when details of the statutory override are known, and the audit work has been concluded, so final approval of the accounts can be considered.

## 4. Statement of Accounts – Content

**4.1** The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

The Authority's Statements includes the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and a Cash Flow Statement. In addition, there is an extract from the Somerset Pension Fund Accounts.

**4.2** There are no significant presentational changes this year.

**4.3** In recent years, the authority has seen a change in the audit approach taken by Grant Thornton, with increased scrutiny of the authority's accounting estimates and related disclosures. This includes increased scrutiny of journal postings and the evidence supporting those entries. There has also been a significant focus on two of the largest accounting estimates (pensions liability and property valuations). This additional scrutiny has been seen nationally following requests made on auditors by the Financial Reporting Council and auditing standards. This applies to audits at all authorities. The remainder of this section details the significant findings during the audit process this year, and the subsequent changes to the accounts since they were made available to the Audit Committee in August 2022.

**4.4** IAS19 Pensions Liability – Long term salary assumption amendment

The Council is required by the Code to account for post-employment pension benefits in accordance with IAS 19 Employee Benefits. Accounting for defined benefit plans, such as the Local Government Pension Scheme (LGPS), is complex because actuarial assumptions and valuation methods are required to measure the Balance Sheet obligation (liability).

The unaudited accounts issued on 29 July 2022, included a number of LGPS assumptions (one of which related to the potential long-term salary increase for employees in the scheme). During their review, audit challenged the Councils assumption of a 2% annual increase which had been based on the Bank of England's target rate of inflation, suggesting a rate of 4.25% (CPI+1%) would be more appropriate. As the IAS19 pensions liability represents an accounting position rather than the actual funding position, the Council agreed to amend the salary assumption adopted in the 21/22 accounts.

The change from a 2% to 4.25% long term salary assumption has increased the overall IAS19 pensions liability by £57.351m (from £812.682m to £870.033m). Under accounting regulations, this increase is not chargeable to the General Fund, so the additional liability has been backed out through the Comprehensive Income & Expenditure Statement to the unusable Pensions Reserve.

**4.5** Minimum Revenue Provision (MRP) – estimated under provision in 21/22

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, local authorities are required to charge MRP to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to statutory guidance.

During their review of the Council's MRP policy in 2021/22, the auditors have questioned the prudency of the Council's policy, suggesting a prudent MRP provision should be around 2% of an authorities Capital Financing Requirement (CFR). This is a change from previous audit findings reports and if accepted would suggest the Council's MRP charge for 2021/22 was understated by approximately £5m.

The Government are expected to clarify the statutory guidance to clarify what is meant by a 'prudent provision' but at the time of writing the guidance has yet to be issued. For this reason, the Council has agreed to review the MRP charge for 2022/23 but has not amended the provision for 2021/22.

The Council's MRP policy was already under review as part of the Local Government Reorganisation in Somerset, so the opinion of external audit and any revised Government guidance will be considered when the MRP policy for the new authority is drafted in 2023/24.

**4.6** Grant Income - Re-classification of Government grant

During a review of the authority's grant income note (Note 23), it became apparent the unaudited accounts had mis-classified the Troubled Families grant as Other Service grant. The total of the grant income reported (£1.206m) was correct, but the allocation was disclosed on the wrong line of the disclosure note. This misclassification has been corrected in the final set of accounts.

The review also identified a typographical error in a supporting worksheet that had incorrectly pushed some of the grant values into a deficit position. As above, this error did not impact on the total amount of grant being reported in the note but did alter a number of lines (including Standards Fund and LEP grant). This error has been corrected for the final set of accounts.

**4.7** Property, Plant and Equipment – Property valuation omission
During their review of the in-year Property valuations, audit noted a school extension had not been picked up in the valuation report. The school had been included in the annual desktop valuation, so no formal inspection had been carried out. The extension would have added an additional £1.314m on the carrying value of the school, so the accounts have been restated to ensure the correct value is being reported.

**4.8** Property, Plant and Equipment – Revaluations misstatement
During their review, the auditors identified a misstatement in the values being reported under the Other Land & Buildings column of the Revaluation Year table reported on page 127. The total of the column (£465.274m) was correct but the valuation year figures included in the total were incorrect. The error had arisen due to the desktop valuations in 2021/22 being reported in the wrong year. This misstatement has been corrected for the final set of accounts.

**4.9** Highways Infrastructure assets – Derecognition of Gross Cost and Accumulated Depreciation
At the time of writing, we are awaiting the results of a Government consultation on the reporting of gross cost and accumulated depreciation for Infrastructure assets. Although the results are still to be confirmed, if as expected the government put a statutory override in place, a number of derecognition adjustments made to Note 25 will no longer be required. These adjustments (made to gross cost and accumulated depreciation) had a net nil impact to the carrying value of the councils Infrastructure assets and have been removed from the final accounts.

**4.10** Termination Benefits (Note 19 – table 4) – Exit Package misstatement
During their review, the auditors noted the number of exit packages within the £40k to £60k banding had been overstated by 1 package. This caused an imbalance with the total number of packages being reported in Note 20. Having checked the supporting evidence, it was discovered that Note 20 was correct, so the number of £40k to £60k exit packages reported for 2021/22 has been reduced from 2 to 1.

**4.11** Fees for External Audit Services misstatement
During their review, the auditors noted the Audit Fee disclosure (Note 21) did not agree back to the approved audit plan. This was a minor overstatement but given the prominence of the disclosure, the amounts have been amended to ensure the disclosure matches the audit plan.

**4.12** A few minor errors/omissions were also identified during the audit review, and a small number of accounting policies have been amended to ensure the policies disclosed were relevant and worded correctly.

## 5. Letter of Representation

**5.1** The International Standard on Auditing 580 requires auditors to obtain written representations from management and, where appropriate those charged with governance in an audit of the financial statements. This statement can be found in Appendix B as a formal Management Representation letter to Grant Thornton

The Committee are requested to formally approve this representation. Once approved the letter will be passed to our auditors.

## 6. Annual Governance Statement

**6.1** The draft Annual Governance Statement (AGS) for 2021/22 was approved by the Audit Committee at its meeting in July. Best practice requires local authorities to review their Annual Governance Statement immediately before the Statement of Accounts is approved to ensure that the governance framework and risks have not significantly changed since the review was carried out.

**6.2** In accordance with the CIPFA disclosure requirements, following formal approval of the Annual Governance Statement, the Governance Board will develop an Action Plan for 2022/23 aimed at further strengthening the Council's governance. Many of these will already be known and on-going actions, such as the continual review of the Constitution and key financial and organisational policies, especially in the light of Local Government Reorganisation.

**6.3** The main purpose of the Annual Governance Statement is to provide the necessary assurance that a reliable framework was in place for the financial year that aligns to the Statement of Accounts.

However, best practice suggests that the Annual Governance Statement should also reflect the unique features and challenges of the County Council, and that it should therefore anticipate known and potential governance challenges ahead. This year's Statement includes the following significant challenges ahead for 2022/23:

- Sustainable financial position
- Local Governance Reorganisation
- Covid 19
- Integrated Care System
- Special Educational Needs & Disability (SEND) Improvement Plan
- Organisational Capacity and Resilience

By doing so, it highlights these areas which could present significant corporate risks during 2022/23 and future financial years. The Committee can be reassured that mitigations and management actions are already underway on these matters.

## 7. Value for Money (VFM)

**7.1** On 1 April 2020, the National Audit Office (NAO) introduced a new Code of Practice which introduced a revised approach to the VFM audit.

There were three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improving economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the previous 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on significant weaknesses in arrangements identified during the audit.

**7.2** The Code requires auditors to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria (financial sustainability, governance and improving efficiency and effectiveness).

**7.3** In their 21/22 audit plan, Grant Thornton's risk assessment focused on two key areas:

- Financial Sustainability; and
- Arrangements for transition to the new Unitary Authority

**7.4** The VFM review has been concluded, and Grant Thornton are satisfied that the Council had made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources. The review found no significant weaknesses but made several improvements recommendations. Further details on these recommendations can be found in the Executive Summary (Page 3) of the Auditors Annual Report for 2021/22.

## 8. The next steps

**8.1** Members will be notified when details of the statutory override are known, and the audit work has been concluded, so final approval of the accounts can be considered.

**8.2** After approval of the Statement of Accounts and Letter of Representation by this committee the audited Statement of Accounts will be published and made available on the internet.

**8.3** When received the audit certificate will be added to the audited Statement of Accounts which will be published and made available on the internet.

## 9. Background papers

**9.1** Executive (15 June 2022) - 2021/22 Revenue Budget Outturn Report; and 2021/22 Capital Budget Outturn Report

**Note:** For sight of individual background papers please contact the report author.

**Annex 1**

Disclosure amendments since draft accounts were issued:

| Page | Statement/Note | Description |
|---|---|---|
| **Adjusted Misstatements** | | |
| 76, 78 | Comprehensive Income and Expenditure Statement, Movement in Reserves | To amend the disclosure for the reduced remeasurement gain on pension liabilities (from £234.469m to £177.118m), due to the change from a 2% to 4.25% long term salary increase assumption. |
| 12,13,78, 145, 147, 158, 163 and 166 | Narrative Report, Balance Sheet, Note 35, 40 and 44 | To amend the disclosure for the change in pensions reserve and liability, due to the change from a 2% to 4.25% long term salary increase assumption. |
| 177, 178, 180, 182 and 183 | Note 52 – Local Govt Pension Scheme (LGPS) | Multiple amendments to ensure the disclosure is correctly reporting the LGPS position due to the change in long term salary assumption mentioned above. |
| 119 | Note 21 | To amend the amounts reported as being payable for the main audit and grant claims, to ensure they agree to the audit plan. |
| 76, 78, 79, 112, 124, 127, 163 and 164. | Comprehensive Income and Expenditure Statement, Movement in Reserves, Balance Sheet, Note 16,25 and 44. | To include a school extension (£1.314m) in the carrying value of Other Land & Buildings, that had been omitted from the in-year valuation in error. |
| **Misclassification and disclosure changes** | | |
| 114 | Note 19 | To reclassify the 1 non-school employee reported in error, from the £120,000- £124,999 pay banding to the £115,000 - £119,999 band. |
| 121 and 122 | Note 23 | To reclassify the grant income incorrectly reported as negative, and to recognise the Troubled Families grant correctly in the note. |
| 124 and 125 | Note 25 | Removal of the Infrastructure gross cost and accumulated depreciation adjustments, due to the Governments imminent statutory override |
| 127 | Note 25 - Revaluations | The values for Other Land & Buildings have been reclassified into the correct valuation year. |
| Various | Various | Other amendments including spelling, grammar and syntax and other minor disclosures. |