

Meeting of:	<b>Governance and Audit Committee</b>
Date of Meeting:	<b>Monday, 23 January 2023</b>
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Audit of the 2021/22 Financial Statement - Reporting to Those Charged with Governance
Purpose of Report:	To present to those charged with governance the report of the Auditor General for Wales following the audit of the Council's Financial Statements for 2021/22.
Report Owner:	Report of the Chief Executive
Responsible Officer:	Matt Bowmer Head of Finance/Section 151 Officer
Elected Member and Officer Consultation:	None
Policy Framework:	The proposals in this report are in accordance with Policy Framework and Budget
<p><b>Executive Summary:</b></p> <ul style="list-style-type: none"> <li>• The audit of the 2021/22 Statement of Accounts is in the final stages of completion.</li> <li>• The latest 2021/22 Statement of Accounts incorporating all agreed amendments is now presented to Governance and Audit Committee.</li> <li>• As a result of the impact of the Covid 19 Pandemic the Audit deadline was changed from 31 July 2022 to 30 November 2022 and was further delayed due to the need to amend the Code and bring in statutory regulations to allow changes to the way Infrastructure Assets are disclosed in the Statement of Accounts.</li> <li>• The updated Annual Governance Statement at Appendix A, will be circulated and made available when finalised by Audit Wales, prior to the Governance and Audit Committee meeting on 23<sup>rd</sup> January 2023.</li> <li>• Similarly, the report of the Auditor General for Wales and the final Letter of Representation attached will be shown in Appendix B, and will be circulated in conjunction with Appendix A.</li> <li>• It is proposed that the audited Statement of Accounts are reported to Council on 30 January 2023 for Approval and then signed by the Auditor General for Wales.</li> </ul>	

## Recommendations

1. That the report of the Appointed Auditor on the audit of the Council's Financial Statements for 2021/22 be approved and the Financial Statements including the Annual Governance Statement and Final Letter of Representation be recommended for signature by those authorised.

## Reasons for Recommendations

2. To ensure that the members of the Governance & Audit Committee, as those charged with governance, have considered the results of the audit of the Councils Financial Statements for 2021/22.

### 1. Background

- 1.1 The Council is responsible for the preparation of the Financial Statements that presents fairly its financial position as at 31st March 2022. The Auditor General for Wales is responsible for reporting whether, in his opinion, this is indeed the case. The audit was undertaken by the Audit Wales (AW), as the Council's Engagement Lead, on behalf of the Appointed Auditor.
- 1.2 The Statement of Accounts for 2021/22 was prepared by the 5 July 2022 and on 11 July 2022 the unaudited copy was presented to this Committee.
- 1.3 With the audit of these Financial Statements now substantially complete, a report detailing the key matters arising from the audit must be reported by the Auditor General for Wales to those charged with governance, in accordance with the International Standard on Auditing (ISA 260) this is attached at Appendix B. In line with its terms of reference, the Governance and Audit Committee represents the appropriate body to which this report must be communicated.

### 2. Key Issues for Consideration

- 2.1 The latest 2021/22 Statement of Accounts incorporating all currently agreed amendments will be included at Appendix A and circulated and made available when finalised prior to the Governance and Audit Committee meeting on 23<sup>rd</sup> January 2023.
- 2.2 The Accounts includes amended disclosure in respect of the accounting for Infrastructure Assets which has been subject to amendments to the CIPFA code and WG Regulation.
- 2.3 Audit issues in respect of the accounting for Infrastructure assets have been an emerging issue in England on 2020/21 accounts and of particular concern in Wales regarding the 2021/22 accounts. Effectively Infrastructure assets are assets such as the Highways Network, Bridges, Street Lighting and Street

Furniture held at historic cost and these balances have been found to be not sufficiently accurate to satisfy audit requirements particularly where these balances have been allocated on local government reorganisation where in some cases the balances have been allocated on a percentage basis.

- 2.4** A further concern is regarding how Local Authorities account for capital expenditure on infrastructure assets and specifically whether Local Authorities should be assessing whether there is any undepreciated cost remaining in the balance sheet for the replaced components that should be derecognised. In practice the Council has assumed that the replaced or restored part of the asset is derecognised at a zero amount where expenditure has taken place to renew or replace an infrastructure asset. As the CIPFA bulletin on this matter points out this fits the economic model because local authorities have not had sufficient resources to do anything other than undertake replacement or renewal expenditure when parts of infrastructure assets are worn out.
- 2.5** To rectify this matter for 2021/22 CIPFA have released an Update to the Code and Specifications for Future Codes for Infrastructure Assets and Welsh Government have approved the Local Authorities (Capital Financing and Accounting) (Wales) (Amendment) Regulations 2003, which makes statutory provision to allow Local Authorities to follow an accounting treatment which supports the assumption that derecognition of the carrying amount is zero when replacement or renewal is made. This is anticipated to ensure that Local Authorities ' net book value is materially accurate in accordance with the 2021/22 Code.
- 2.6** The amended disclosure required as part of the code has been reflected in the accounts to be shown in Appendix A as part of Note 16. The Council has not disclosed gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean gross cost and accumulated depreciation are not measured accurately and would not faithfully represent the asset position to the users of the financial statements. Whilst the Infrastructure category of assets has been excluded from the main Property Plant and Equipment (PPE) note the infrastructure balance is still included in the figure disclosed on the Balance Sheet and therefore a reconciliation to the sum is included in the accounts.
- 2.7** The report of the Auditor General for Wales and the final Letter of Representation, will be attached at Appendix B and forwarded in conjunction with Appendix A.
- 2.8** The provisional findings of Audit Wales on behalf of the Appointed Auditor on the audit of the Financial Statements are that:

  - Audit Wales intend to issue an unqualified audit opinion on this year's accounts.

- There were some misstatements in the accounts that have now been corrected by management. The corrected misstatements are summarised below, and are included for information, in Appendix 3 of the Audit Wales ISA260 report shown in Appendix B.
    - Overstatement of the Debtors figure in the Financial Instruments note.
    - Vehicle Assets with a nil net book value that had not been written out of the Council's accounts and therefore the Gross carrying amount and Accumulated Depreciation were overstated by £483k.
    - Corrections to the classifications included in the Debtors note.
    - Some narrative changes to the Senior Officer Remuneration note.
    - Amendment to the Accounting for a Transport for Wales transaction which required a reduction in the Deferred Capital Receipt value, disposal of the Asset Held for Sale and accounting for residual sum as a Capital Grant Received in Advance. This amendment impacts the Comprehensive Income and Expenditure and balance of the Unusable Reserve and therefore the amendments can be seen across a number of the Statements and disclosure notes contained within the accounts.
    - Other narrative and presentational amendments including changes to the Audit Fee, Joint Committee disclosures and the Annual Governance Statement.
  - The misstatement relating to the Social Care Debtor remain uncorrected, this sum is not material and further work is required to establish an appropriate level for a Provision for Doubtful Debts, however the accounting for this income will be corrected as part of the preparation of the 2022/23 accounts and an initial indication of the impact of this change has been reflected in the monitoring report that was reported to Cabinet on 19 January 2023, this matter has been raised as a Management Recommendation in Appendix 4 to the Auditor's report.
  - A further Management Recommendation has been raised regarding the classifications utilised for the disclosure of type of Debtors within the accounts and in response the Council has agreed to undertake a review as part of the preparation of the 2022/23 accounts.
- 2.9** It is the intention of the Appointed Auditor to issue an unqualified audit report on the Financial Statements once the relevant Council Officers have provided a signed Final Letter of Representation.

### **3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?**

- 3.1** The Council's budget and therefore its expenditure is incurred in order to achieve its corporate priorities as set out in the Corporate Plan 2020-2025 through the 4 well-being outcomes

#### **4. Climate Change and Nature Implications**

- 4.1 None as a direct consequence of this report.

#### **5. Resources and Legal Considerations**

##### **Financial**

- 5.1 As stated in the body of the report

##### **Employment**

- 5.2 None as a direct consequence of this report.

##### **Legal (Including Equalities)**

- 5.3 The Statement of Accounts is prepared in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2014 (as amended).

#### **6. Background Papers**

None