

Report to:	Audit and Governance	23 rd January 2024
Lead Cabinet Member:	Councillor John Williams, Lead Cabinet Member for Finance	
Lead Officer:	Peter Maddock, Head of Finance	

Approval of the draft accounts for 2021/22 and arrangements for the completion of accounts and audit for outstanding years.

Executive Summary

1. The statement of accounts for the year 2020/21 were approved in November 2023 and the draft accounts for 2021/22 are presented for approval at this Committee. Whilst there is an agreed proposed timetable, reported at the meeting on 26th July 2023, for completing and auditing of the outstanding accounts it is not clear at this stage whether 2021/22 and 2022/23 accounts will actually be subject to a full audit. Central Government have proposed a new catch-up process and we have some information on that; the proposed back stop date for completing these years has not been confirmed but is likely to be 30th September 2024.
2. For the 2023/24 financial year the Council have new auditors in KPMG. If there is not a full accounts audit for 2021/22 or 2022/23 it is expected that KPMG will need to do additional work on the opening position for 2023/24 to provide sufficient assurance to an enable a full audit to take place.

Recommendations

3. That Committee approve the draft accounts for 2021/22 reproduced at Appendix A.
4. That Committee note that the 2021/22 and 2022/23 accounts are unlikely to be subject to a full audit as the proposed deadline for the two outstanding years is likely to be 30th September 2024.
5. That Committee note the change of auditor for 2023/24 and the following 5 years to KPMG and that additional work is likely to be needed by them to get sufficient assurance for that year.

Details

2021/22 Accounts

6. The Council has been preparing the draft accounts for 2021/22 over the last few months and published them subject to Committee approval on its website on 22nd December 2023. These accounts are reproduced as Appendix A and some commentary is included below to assist the Committee.
7. The Comprehensive Income and Expenditure Statement (CIES) shows the income and expenditure of the Council for 2021/22 and relates to both the General Fund and the Housing Revenue Account. There is a Surplus of £103.980m for the year compared to a surplus of £39.121m in the prior year and this is primarily driven by a number of valuation changes.
 - a. Investment property valuations increased significantly in the prior year in 2021/22 the overall position charged to the CIES was largely unchanged (note 10).
 - b. There was a significant increase in 2021/22 on the Council's HRA dwellings which was less marked in the prior year (note 12 column 1).
 - c. Due to a change in the financial assumptions the pension liability has reduced from £81m to £59m from 2020/21 to 2021/22.

This however is not the overall picture for the General Fund as the Movement in Reserves Statement (MiRS) referred to below has to be taken into account also, which gives an overall surplus of £2.955m. This is in line with the outturn reported to Cabinet in September 2022 and shown within the Narrative Report (page 3).

8. The MiRS contains various accounting adjustments that need to be removed from the cost of services figures when ascertaining the amount that can be charged against the Council Tax. Examples include Depreciation and Asset impairments, Pension and Collection Fund adjustments. The statement also includes amounts appropriated to reserves and items that need to be charged against the Council Tax but do not form part of the CIES.
9. The Balance Sheet shows what the Council owns and what it owes. The largest figure, unsurprisingly, relates to Property Plant and Equipment which has increased in value by some £78m to £673m. The biggest element of this being the Council's Housing Stock. The valuation basis used for council dwellings is existing use for social housing, on the basis that the properties are occupied by council tenants. This is the primary driver behind the increase of £104m in the Balance sheet total.
10. Investment property figures have reduced as it was known at 31st March 2022 that the one of the Investment properties was to be sold. This has been moved to Assets Held for Sale under current assets and the sale took place during April 2022.
11. Short term Debtors show a reduction of around £7m and the details are shown in note 16. The most significant element of this change is related to the large

collection fund loss there was in the prior year which was brought about by the significant covid related reliefs given to businesses.

12. The Council had general fund borrowing of £50m in 2021/22 and all of this was classed as short term as the maturity date was within 12 months of the balance sheet date. In the prior year general fund borrowing was £44m, £19m of which was classed as short term and £25m of was classified as long term as the maturity date was more than a year after the balance sheet date. The borrowing is related to the Council's purchase of investment property.
13. The pensions liability has reduced from £81.231m to £59.104m. The valuation is based on a number of assumptions, such as future pensions and estimated salaries which as expected have increased, life expectancy has been reduced and the return on plan assets has increased. The main reason for the increase in returns is related to the recovery from the low returns assumed previously as a result of the pandemic. These factors have acted to reduce the liability. Having said that the liability will not crystallise any time soon as it is merely an estimate of the future liability at a point in time.
14. The cashflow statement shows the change in cash and cash equivalents. A cash equivalent being a financial instrument that can be readily turned into cash within a short period of time. The statement shows the type of cashflows and how we get from the surplus/deficit on provision of services to the cash and cash equivalent figures in the balance sheet.
15. The statements above are often referred to as the 'core' statements.
16. There are a number of notes in the statement which give more detail on items within the core statements, and these are prescribed by the accounting code.
17. There are other statements within the accounts that are not classed as core but nevertheless need to be provided where the activity concerned is carried out by the Council. These are the Housing Revenue Account (HRA) Income and expenditure statement and related notes and the Collection Fund and related notes.
18. The former is concerned with the income and expenditure related to the management and maintenance of HRA property in the Council's role as a social landlord the latter is concerned with the collection and distribution of the Council Tax and Business Rates in the Council's role as the billing authority.
19. Finally, because the council has two wholly owned subsidiaries, Group Accounts need to be produced to show the financial performance of the three entities after adjusting for transaction between the entities.

2022/23 Accounts

20. Work has begun on preparing the draft 2022/23 accounts and the intention is for these to be ready by the end of March 2024. This is quite a tight timescale to achieve given that there are a number of other competing demands placed on the team at this time.

2021/22 and 2022/23 Accounts Audit

21. The latest position is that both of these years are expected to be subject to a compulsory completion deadline of 30th September 2024. Although possible, it is highly unlikely that both of these years can be audited completely in the time period available. By the end of December 2023 less than 10% of the 2022/23 local authority audits had been completed and there are also a significant number of earlier audits also outstanding including ours. It seems extremely unlikely that these can be cleared in nine months given the issues experienced previously and the planning assumption now is that neither 2021/22 or 2022/23 will be subject to a full audit.

22. If full audits cannot be achieved then either a qualified opinion or a disclaimer is the likely outcome. A meeting with EY is being arranged shortly to ascertain their position with regard to this and a verbal update will be given at this meeting.

23. It is not clear what effect a qualified opinion or disclaimer would have or indeed what the actual qualification or disclaimer would look like. Generally when a qualified opinion is given on a set of accounts it means that a set of accounts is fairly presented with the exception of a specified area. A disclaimer suggests that no opinion is offered on the accounts and that the auditor has been unable to complete the planned audit procedures. Neither of these options, is particularly palatable but it seems one of these options at this point is inevitable.

24. The best outcome is probably that either a qualification or disclaimer is made and the reasons for this are made absolutely clear within the wording used.

25. It is clear though that something has to be done to get the system working properly for Local Authorities, Auditors and residents so that financial reporting can be done in a timely fashion to the benefit all stakeholders. If it means something drastic like that proposed has to be done to achieve this then there seems little choice but to support this course of action.

2023/24 Accounts and Audit

26. KPMG are taking over the final accounts audit for the financial year 2023/24 and they are currently gathering information and carrying out their planning work for the audit of that year. It is expected that this process will be complete by 31st March 2024. The actual audit though will not commence until October 2024 at the earliest and that is by no means certain.

27. The intention is for the 2023/24 draft accounts to be completed during the spring and summer of 2024 so that they are ready for Audit by 30th September 2024. This should be possible if the previous two years are not subject to an audit and

all the necessary support work is not undertaken. If the expectation is that a draft set of accounts for 2023/24 is prepared and two audits have to be supported as well in the next nine months then this will not be achievable.

28. If both 2021/22 and 2022/23 are subject to a qualified opinion or are disclaimed the 2023/24 draft accounts can probably be ready for KPMG by 30th September. The issue then will be how much additional work will KPMG need to do to gain the assurance they need to provide full assurance on the 2023/24 accounts. At the very least they will need to satisfy themselves that the opening balances for 2023/24 are materially correct.
29. Once that has been achieved a normal local authority audit can take place on the transaction in 2023/24 but the whole process will take longer than a normal audit and is likely to continue into quarter 4 of financial year 2024/25 meaning that it will not be until the 2024/25 accounts are prepared and audited will the Council be completely up to date with its financial reporting cycle.
30. Discussions with KPMG have been ongoing for a number of months now and it is proposed to set up regular meetings with them shortly. The approach adopted by them has been extremely helpful they have been understanding of the situation that the Council is in and the competing demands that it faces. They have allowed ample time for the preparation work to be completed. It is unlikely that the first year of audit would be without its challenges even without the issues thrown up by the proposed catch-up arrangements but myself and the team are looking forward to working together with KPMG to get the best outcome for all concerned.

Options

31. The report asks the committee to approve the draft accounts for 2021/22. The committee has this with its terms of reference so not carrying out this function could not be recommended.

Implications

32. In the writing of this report, taking into account financial, legal, staffing, risk, equality and diversity, climate change, and any other key issues, the following implications have been considered:-

Financial and Fraud Risk

33. Timely and robust consideration of the Council's budgets is vital to ensure that financial statements are correctly stated, financial procedures are followed and that the financial position of the Council is effectively managed and monitored.
34. The assessment and management of fraud risk is an integral part of the final accounts and audit process and the Council is required to report on any fraud experienced and the arrangements it has in place to prevent and detect fraud. The Council has robust arrangements in place that includes our corporate fraud

team, internal audit and this committee has fraud risk and management within its terms of reference.

35. The proposed catch up arrangements potentially add additional risk to the process but these should be mitigated by preliminary work by KPMG to satisfy themselves that the opening position in 2023/24 is materially correct.

Legal

36. There is a requirement under the Accountancy and Audit Regulations for Council's to present their accounts for the preceding financial year for audit by 31st of May each year and for those accounts to be audited and published by 31 July each year.

Risks/Opportunities

37. There is a risk that the financial statements are incorrectly stated with consequential impacts. The purpose of the external audit is to mitigate this risk. This is still a significant risk going forward but with dedicated experienced resources now tasked with dealing with auditor queries and accounts completion the risk should be mitigated.

Alignment with Council Priority Areas

A modern and caring Council

38. Producing an annual statement of accounts is key to supplementing the financial information already in the public domain, to ensure the full transparency of the Council's financial affairs.

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- Final accounts position statement and catch up plan – Report to Audit and Governance Committee: 26th July 2023

Appendices

Appendix A Draft Statement of Accounts for 2021/22

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