

North Tyneside Council Report to Audit Committee Date: 16 November 2022

ITEM

2021/22 Annual Financial Report

Report from: Finance

Responsible Officer: Jon Ritchie, Director of Resources **Tel:** 643 5701

Wards affected: All

PART 1

1.1 Executive summary:

- 1.1.1 The purpose of this report and supporting appendices is to provide the Audit Committee with an update in respect of the current progress of the external audit of the 2021/22 Statement of Accounts by Ernst and Young (EY).

1.2 Recommendation(s):

The Audit Committee is recommended to:

- (a) note the Audit Results Report, submitted by the Authority's external auditors Ernst and Young (Appendix B); and
- (b) note the revised 2021/22 draft Annual Financial Report (Appendix A).

1.3 Forward plan:

- 1.3.1 This report is contained in the forward plan of the Audit Committee.

1.4 Council plan, policy framework:

- 1.4.1 The Annual Statement of Accounts covers all the service responsibilities as identified within the Council Plan.

1.5 Information

1.5.1 Background

It is a requirement of Section 9 (2) of the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code that the Authority approves its audited Annual Financial Report for the financial year.

The requirements and timeline for the approval of a local authority's Statement of Accounts are set out in the Accounts and Audit Regulations 2015. However, due to the impact of the COVID-19 pandemic the Ministry of Housing, Communities and Local Government (MHCLG) put in place revised regulations that came into force on 31 March 2021. The Accounts and Audit (Amendment) regulations 2021 extended the statutory audit deadlines for 2021/22 for all local authorities. The publication date for audited accounts moved from 31 July to 30 November 2022 for all local authority bodies.

National Issue - Infrastructure Assets

- 1.5.2 Earlier this year, the Authority became aware of an issue relating to the reporting of infrastructure assets, which has led to delays in local authority audits. Accounting for infrastructure assets in local government has not historically been considered to be an area of significant audit risk. However, recent concerns have been raised by local government auditors that some authorities are not applying component accounting requirements in sufficient detail with respect to these assets. Specifically, given the historic nature of the majority of these balances, many authorities are unable to provide sufficient evidence of the value of replaced components of infrastructure assets when they are derecognised. This is particularly the case in relation to roads, though the issue is likely to impact on all infrastructure assets. This may therefore lead to issues relating to the reporting of gross historical cost and accumulated depreciation. This has led to delays to audit completion for many authorities, and the risk of widespread accounts qualifications.

In response, CIPFA and CIPFA LASAAC agreed to try to assist in the resolution of the issue through changes to the Code of Practice on Local Authority Accounting (the Code). Despite every effort being made to find a solution through the Code, an accounting solution has not been found that satisfies all stakeholders for the amount to be derecognised. The government, undertook to review the necessity for an accounting statutory override whereby, under the Local Government Act 2003, it may make provision for local authority accounting practices.

CIPFA LASAAC will continue to take forward proposed changes to the Code to address the issues associated with reporting of gross cost and accumulated depreciation, subject to CIPFA LASAAC's own due process. However, it is not expected that the Code can offer a solution, accepted by all stakeholders, that addresses the issue of derecognition of assets.

The government is proposing to put in place a statutory accounting override to allow local authorities to treat the value of any replaced component of infrastructure assets as nil, without the need to further evidence that this is the case. The override also removes the requirement for authorities to make prior period adjustments to infrastructure asset balances. The override will not include any provision for matters relating to gross cost or accumulated depreciation, as these matters are anticipated to be addressed through the Code – it is important to consider the overall solution as the combined effect of the override and Code changes. Use of the override is optional, and authorities may choose not to apply it – it is for each authority to make this decision.

The proposed override applies to all local authority accounts for which an audit certificate has not been issued, and is time limited such that the last financial year to which it applies will be 2024/25. The statutory override is not due to be in place

until December 2022 which means that the Authority's financial statements are unlikely to be able to be finalised until early 2023. This issue has been ongoing since around March 2022, due to the government and CIPFA's involvement the Authority had anticipated that this issue would be resolved in time for the Authority to meet the 30 November statutory deadline to publish the audited statement of accounts. As described on page 5 of the Audit Results Report one option available to the Authority to finalise the 2021/22 financial statements would be for the external auditor to include a 'limitation of scope' on infrastructure assets in the audit opinion. The Chief Finance Officer considered this option and following both internal and external consultation with other regional authorities the decision has been taken to wait until the statutory override is in place and the Authority does not wish to go ahead with the limitation of scope option.

- 1.5.3 Notwithstanding the National issue in relation to Infrastructure Assets the audit of the 2021/22 accounts is substantially complete and an unqualified audit opinion is expected to be issued. The 2021/22 Audit Results Report notes that no material errors have been identified in the financial statements at this stage.

A number of disclosure errors have been identified during the audit and the majority of these have been corrected and are reflected in the Annual Financial Report. The significant adjustments required relate to the following items and are described in more detail in the Audit Results Report:

- (a) Cash and Cash Equivalents were overstated by £7.500m. This related to two investments with a duration of over three months. The investments have been reclassified as Short Term Investments in the accounts.
- (b) Debtors and creditors were (under)/ overstated in the balance sheet by £3.994m in relation to Rent Allowances/ Rent Rebates. This adjustment has been made and there is no impact on the overall reserves of the Authority.
- (c) Note 13 – Grants and Contributions Income. Two COVID-19 grants were overstated in the note by £1.410m in total. This is a disclosure note only and there is no impact on reserves.

It should be noted that these adjustments do not impact on the Authority's reserves and balances. A copy of the Audit Results Report is attached as Appendix B. A final version of the audited accounts will be circulated to members of the Audit Committee once the final audit is completed. Appendix C to this report summarises the statements and notes that will change due to the audit amendments.

- 1.5.4 In addition to the above amendments the Authority received a revised Airport valuation after the draft 2021/22 accounts were published and in common with the other local authority shareholders the revised accounts reflect the change in the Airport value.

The 2021/22 revised draft Annual Financial Report is attached for consideration as Appendix A to this report. The Statement follows a statutory format as set out in the CIPFA Code.

Annual Financial Report

- 1.5.5 The main elements of the Annual Financial Report are:

- (a) Narrative Statement by the Chief Finance Officer;
- (b) The statutory accounts themselves, namely;
 - Statement of Responsibilities;
 - Comprehensive Income and Expenditure Statement;
 - Movement in Reserves Statement;
 - Balance Sheet;
 - Cash Flow Statement;
 - Housing Revenue Account;
 - Collection Fund Statement.
 - Statement of Accounting Policies adopted when compiling the accounts; and
- (c) The Annual Governance Statement.

1.5.6 Each account above is supported by a comprehensive set of supporting and explanatory notes.

Summary

1.5.7 The Authority's Annual Financial Report (the Accounts) is prepared in accordance with statute and accounting Codes of Practice. The Accounts record the Authority's financial position as at 31 March 2022 by way of a series of formal statements such as the Comprehensive Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MiRS), the Balance Sheet and the Cash Flow Statement.

1.5.8 As noted in the Outturn report, the General Fund Balance remains unchanged at £7.000m. The Housing Revenue Account (HRA) balance as at 31 March 2022 was £3.501m, and Schools Balances were £3.398m. The Council incurred expenditure of £63.045m in the year on its Investment Plan (£36.287m General Fund and £26.758m HRA).

The Statement of Accounts

A summary of the main features of the 2021/22 statutory accounts follows:

1.5.9 The **Comprehensive Income and Expenditure Statement** (page 32) records revenue transactions (for both the General Fund and the Housing Revenue Account) through the Authority's accounts for the financial year. As its name indicates this statement includes the income and expenditure for each service, along with expenditure on precepts and levies, interest paid, investment income, gains and losses on disposal of fixed assets and the costs associated with pensions. It also includes general income from Government Grants, Council Tax and Business Rates.

1.5.10 The surplus or deficit shown on the Comprehensive Income and Expenditure Statement represents accounting convention and it does not impact on the Authority's balances at the year-end. For that reason, the Comprehensive Income and Expenditure Statement needs to be read in conjunction with the **Movement in Reserves Statement** (page 34), which makes a series of further accounting adjustments to arrive at the actual movement in balances in the year.

1.5.11 The Movement in Reserves Statement shows that after these adjustments the General Fund balances have decreased by £15.952m. In the main this decrease

relates to the use of the Section 31 Business Rates Relief grant that was brought forward from 2020/21 to be utilised in the early part of 2021/22.

The General Fund balance remains unchanged at £7.000m whilst school balances have decreased to £3.398m. The Housing Revenue Account balances have decreased from £5.002m to £3.501m, an in-year decrease of £1.501m.

- 1.5.12 The **Balance Sheet** is set out on (page 36). As the revenue accounts are closed down for the year, the General Fund and HRA balances, along with the capital transactions from the Authority's Investment Plan are transferred to the Authority's Balance Sheet. This represents the final position of the Authority at the end of the financial year, showing the assets that the Authority owns (such as land and buildings), the amounts it is owed (debtors etc) and what it owes to outside bodies and individuals (loans outstanding, creditors etc).
- 1.5.13 The **Cash Flow Statement** (page 38) shows the movement in cash and cash equivalents during the year.
- 1.5.14 The **Housing Revenue Account** (page 160) sets out the transactions that are ring-fenced for Council Housing.
- 1.5.15 The **Collection Fund Statement** (page 169) accounts independently for income relating to Council Tax and Business Rates on behalf of those bodies (including the Authority's own General Fund) for whom the income has been raised. The costs of administering collection are accounted for in the General Fund. Collection Fund balances relating to North Tyneside Council are consolidated into the Authority's Balance Sheet with the (surplus)/deficit relating to the Authority shown in the Collection Fund Adjustment Account.

Annual Governance Statement

- 1.5.16 The Annual Governance Statement is a statutory document which is signed by the Elected Mayor, the Chair of the Council, the Chair of the Audit Committee, and the most senior officer of the Authority (the Chief Executive). The purpose of the document is to demonstrate to all stakeholders that the Authority has controls in place to ensure that its business is conducted in accordance with law and proper standards and that public money is safeguarded, correctly accounted for and is used economically, efficiently and effectively. Although the financial management of the Authority is an essential part of the internal control framework, the Statement is not purely concerned with financial issues but also covers the Authority's constitution, corporate governance arrangements, facilitation of policy and decision making.

1.6 Decision options:

The options available are:

- (a) To accept the recommendations made in section 1.2.; or
- (b) To reject the recommendations made within this report.

1.7 Reasons for recommended option:

The production of an Audited Annual Financial Report is a requirement of the Accounts and Audit Regulations 2015.

1.8 Appendices:

Appendix A: Draft Statement of Accounts for 2021/22

Appendix B: Draft Audit Results Report for 2021/22

Appendix C: Changes to the 2021/22 Accounts

1.9 Contact officers:

Jon Ritchie, Director of Resources, Tel 643 5701

Claire Emmerson, Head of Finance (Deputy S151 Officer), Tel 643 8109

Peter Weir, Principal Accountant, Tel 643 8066

1.10 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author:

- (a) Accounts and Audit Regulations 2015 can be inspected at the Authority's offices.
- (b) Revenue budget 2021/22
<https://my.northtyneside.gov.uk/category/455/council-finances>
- (c) Investment Plan 2021-26
<https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CId=136&MId=597&Ver=4> (Agenda reports pack - Appendix D)
- (d) Reserves and Balances Policy
<https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CId=136&MId=597&Ver=4> (Agenda reports pack - Appendix G)
- (e) CIPFA Code of Practice 2021/22
Can be inspected at the Authority's offices.
- (f) Outturn Report 2021/22
<https://democracy.northtyneside.gov.uk/ieListDocuments.aspx?CId=174&MId=815&Ver=4>

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

As this is a financial report, implications are covered in the body of the report itself and the Annual Financial Report attached as Appendix A to this report together with the 2021/22 Audit Results Report attached as Appendix B to this report.

2.2 Legal

The Authority is required under the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy's Code to prepare and approve its audited accounts for the financial year 2021/22 by 30 November 2022.

2.3 Consultation/community engagement

In line with statutory requirements the draft Annual Financial Report for the year ended 31 March 2022 was published by 4 July 2022 and was available on the Authority's website.

Members of the public were able to inspect the accounts under the statutory public inspection of accounts period from 11 July to 19 August 2022.

2.4 Human rights

The proposals within this report do not have direct implications in respect of the Human Rights Act 1998.

2.5 Equalities and diversity

There are no direct equalities and diversity implications arising from this report.

2.6 Risk management

Potential future financial pressures against the Authority are covered in this report and registered through the Authority's risk management process.

2.7 Crime and disorder

There are no direct crime and disorder implications arising from this report.

2.8 Environment and sustainability

There are no direct environmental and sustainability implications arising from this report.