

02 March 2023

**Post Audit Statement of Accounts 2021/22, Annual Governance Statement
and Audit Findings Report**

Ward(s): All

Portfolios: All

Purpose: For Information

1. Aim

- 1.1 To present the Post Audit Statement of Accounts and position of the council as required under the Accounts and Audit (England) Regulations 2015.

2. Summary

- 2.1 This report presents the Post Audit Statement of Accounts for 2021/22 along with the summarised accounts and Annual Governance Statement.
- 2.2 The report also includes Grant Thornton's Audit Findings Report on the authority's accounts, including the council's letter of representation, which the council is required to provide to Grant Thornton, and is signed by the Chief Financial Officer and Chair of the Audit Committee.

3. Recommendations

- 3.1 Audit Committee are requested to:
1. Receive the Audit Findings report from Grant Thornton on their audit of the 2021/22 statement of accounts and consider the key messages (Appendix 1) and note that there have been agreed amendments made to the accounts during the audit.
 2. Note the required change to the Accounting Policies used for 2021/22 to take account of the 'Update to the Code and Specifications for Future Codes for Infrastructure Assets' and 'CIPFA bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution' (as set out at paragraph 4.7 of this report).
 3. Note and approve the Post Audit Statement of Accounts for 2021/22 (Appendix 2) including the Annual Governance Statement.
 4. Note the summary of accounts (Appendix 3).
 5. Note, consider and endorse the letter of representation attached (Appendix 4).
 6. Agree that the Chair of the Committee signs and dates the accounts as required under the Accounts and Audit (England) Regulations 2015.

7. Authorise the Section 151 Officer to distribute copies of the audited Statement of Accounts to partners and stakeholders alongside the Annual Governance Statement 2021/22.

4. Report detail – know

Headlines from the 2021/22 Post Audit Statement of Accounts

- 4.1 As at 31 March 2022 the Post Audit Statement of Accounts shows a net underspend against budget of £1.495 million (shown on page 14 of Appendix 2 – Post Audit Statement of Accounts).
- 4.2 General fund services (including planned use of general reserves and transfers to and from earmarked reserves) shows an overall surplus for the year of £1.495 million. This has resulted in net general reserves of £19.189 million at the end of the year.
- 4.3 As reported at the November 2022 Audit Committee the Department for Levelling Up, Housing & Communities (DLUHC) had drafted a statutory instrument creating a statutory override for accounting for infrastructure assets. This statutory instrument was approved and released on 25 December 2022 and was the primary reason why the audit of the council's financial statements has seen a delay in completion.
- 4.4 As a result of the statutory override a number of changes have been made in the presentation of infrastructure assets within the accounts. These changes are all in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) 'Update to the Code and Specifications for Future Codes for Infrastructure Assets' and 'CIPFA bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution', with the changes set out in paragraphs 4.5 to 4.7 below.
- 4.5 There is no longer a requirement to publish the gross book value and accumulated depreciation for infrastructure assets. Instead, local authorities are permitted to simply publish the net book value. This can be seen in the Property, Plant and Equipment (PPE) table in Note 14 (shown on page 57 of Appendix 2 – Post Audit Statement of Accounts).
- 4.6 Where a local authority adopts this presentation, a written statement is also required to be made within this note. This statement can be found on page 57 and 58 of Appendix 2 – Post Audit Statement of Accounts).
- 4.7 Within the accounting policies there is now a separate section for highways infrastructure assets outlining the basis for accounting for these assets and the useful economic lives being adopted for each component (shown on page 101 of Appendix 2 – Post Audit Statement of Accounts).
- 4.8 At the November 2022 Audit Committee meeting members requested that a letter was sent to the DLUHC to express frustration at the time it was taking to come up with a solution to accounting for infrastructure assets affecting local

authorities. This letter was sent to the DLUHC by the Executive Director – Resources and Transformation on 04 January 2023.

- 4.9 The audit process identified a number of adjustments affecting the council's accounts; and the audit findings report from Grant Thornton (Appendix 1) outlines these adjustments and disclosure amendments. Although none of these have an effect on general fund reserves, the post-audit of Statement of Accounts (Appendix 2) has been updated to correct these misclassifications and disclosures as follows:
- 4.10 Updated asset information was received from the West Midlands Pension Fund that showed an understatement of pension fund assets. This has resulted in a reduction in the net pension liability of £13.783 million and corresponding reduction in the pension reserve. There was one unadjusted misstatement within the 2020/21 Audit Findings Report that also related to an understatement of pension fund assets of £5.364 million following the pension fund audit. This misstatement was included within the year end actuary calculation for 2021/22 and has had no net impact on the 2021/22 accounts.
- 4.11 As a result of continuing adjustments to pension fund asset values since 2020, Audit Committee at the November 2022 meeting requested that a letter was sent to West Midlands Pension Fund to express frustration at the continuing misstatement corrections that the council was having to make. This letter was sent to the Pension Fund by the Executive Director – Resources and Transformation on 04 January 2023.
- 4.12 Whilst reviewing working papers for audit it was identified by council officers that the National Non Domestic Rates (NNDR) appeals provision had been overstated by £3.830 million. An update to the accounts has been made to reflect this which has therefore reduced the provision and improved the collection fund balance by this amount.
- 4.13 Money market funds held by the council as at 31 March 2022, totalling £35 million, were reclassified from held at cost to held at fair value through profit and loss. This was purely presentational within the accounts.
- 4.14 There were also a small number of other misclassification and disclosure changes which are included within the Audit Findings Report (Appendix 1) from Grant Thornton. These were all amended for but were insignificant and had no impact on the level of reserves.
- 4.15 All the adjustments set out above are highlighted in yellow within the Statement of Accounts (Appendix 2).
- 4.16 There is one unadjusted misstatement set out in the Audit Findings Report in relation to an increase in the PPE valuation between 01 January 2022 and 31 March 2022 for Depreciated Replacement Cost (DRC) assets (assets without an easily identifiable market value such as schools and leisure centres) due to inflationary increases in build costs seen during this period and is estimated to be approximately £6.100 million. Management opted not to adjust for this

amount as it is not material to the accounts and represents 1% of the total net PPE value as at 31 March 2022 (£517 million). Additionally, it was considered that the amount of work involved in updating the asset register and the accounts was disproportionate to the impact to the reader of the accounts.

- 4.17 As a result of the inflationary changes seen in PPE valuations as set out above the Audit Findings Report includes a recommendation to change the valuation date from 1 January to 31 March each year. This will be implemented for the 2022/23 accounts.
- 4.18 The Audit Findings Report also makes a recommendation in relation to the unreconciled differences within the bank reconciliation. A formal Payment Project workstream is underway and will address this issue, with upgrades to the technology platform that supports this integration shortly due for implementation which will both help improve the timeliness and completeness of the monthly reconciliation process and provide improved access to reporting.
- 4.19 At the November 2022 Audit Committee meeting members approved the Annual Governance Statement (AGS). The AGS however has to be published alongside the audited accounts. Therefore the AGS has been reviewed to ensure there are no changes that need to be taken account of since November 2022 as a result of the extended audit. This review has not highlighted any required changes to the AGS and this has been reapproved.

Balance sheet performance

- 4.20 Financial indicators are used to identify key trends and highlight the current financial health of the authority. These indicators are also referred to as ratio analysis.
- 4.21 The position of current assets to current liabilities is an important indicator that effectively identifies the ratio of assets that could quickly be converted to cash in order to cover current liabilities.
- 4.22 It is generally accepted that a ratio of 2:1 is what an organisation should seek to achieve. Achieving this level normally indicates good cash flow performance and financial health.
- 4.23 The council's ratio for 2021/22 is 1.96:1, a decrease from 2.01:1 achieved in 2020/21. The decrease in this ratio is mainly as a result of a reduction in cash and cash equivalents as the council chose to utilise cash balances as an alternative to borrowing to fund previous year's capital expenditure.
- 4.24 Another important ratio in understanding underlying trends in financial health is the comparison between long term assets and long term borrowing. This seeks to highlight the relationship between the borrowing used to purchase the council's property, plant, and equipment, which are then used to deliver the services of the council over several years.

- 4.25 A ratio of 1:1 would be the minimum that would be expected. This would indicate that the council is receiving a benefit from the assets it has purchased that is in line with, or greater than, the repayment of borrowing incurred to fund those assets.
- 4.26 Walsall has achieved a ratio of 2.14:1 for 2021/22, an increase from 1.83:1 achieved in 2020/21. This is a healthy relationship between long term assets and borrowing, indicating that the council is still receiving the benefit of assets that it has purchased where there is no longer any associated borrowing.
- 4.27 The council's balance sheet shows a negative net worth of £115.460 million. This is largely due to the deficit on the West Midlands Metropolitan Authorities Pension Fund.
- 4.28 Excluding the total net pension liability of £601.226 million the balance sheet shows a net asset balance of £485.766 million. As shown in the briefing note to Audit Committee in November 2022 Walsall, along with all our neighbours, show a healthy balance sheet when this is taken into account.
- 4.29 These ratios and balance sheet information show that the council remains in a sound financial position.
- 4.30 Since the introduction of the Academies Act 2010 the council has seen its asset base reduce by approximately £303m as a result of academy conversions, with these assets therefore no longer owned by the council. The loss of assets through academy transfers is a further reason that the council's balance sheet is reported as a negative net worth.

Looking forward

- 4.31 The going concern assumption is a fundamental principle in preparing financial statements. Under this principle, Walsall MBC is deemed to be a going concern for the foreseeable future. The statutory duties undertaken by the council and the method in which funding is raised and provided by central Government are set to continue.
- 4.32 There is no intention to cease trading or seek protection from creditors.
- 4.33 The council has a Medium Term Financial Framework (MTFF) which is regularly reviewed with the medium term financial outlook updated to reflect the forecast financial position of the council going forward.
- 4.34 In addition to this the CIPFA Bulletin 01 – Closure of the 2017/18 Financial Statements issued in February 2018 sets out CIPFA's view on going concern as follows:
- 4.35 The provisions in the Code of Practice on the going concern requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved

without statutory prescription, it would not therefore be appropriate for their financial statements to be prepared on anything other than a going concern basis.

Variance analysis

- 4.36 In 2021/22 there was a material change in the level of funding received by the council from central Government. This was primarily due to a significant reduction in grants provided in response to the Covid-19 pandemic when compared to 2020/21.
- 4.37 Note 3 to the statement of accounts provides an overview of the grant income that the council receives. The largest changes seen during 2021/22 were:
- 4.38 Covid-19 funding credited to the taxation and non-specific grant income within the CIES reduced by approximately £37 million compared to 2020/21. Covid-19 funding credited to services reduced by approximately £7 million when compared to 2020/21.
- 4.39 Housing benefits rent allowances grant reduced by approximately £8m because of less allowances being paid out and the gradual movement towards universal credit.
- 4.40 Dedicated Schools Grant increased by approximately £10m, mainly as a result of increases in pupil numbers. The majority of this grant is passed directly to schools through the delegated budget mechanism.
- 4.41 Total capital grants decreased by approximately £15m. This is mainly attributable to a reduction in growth deal grant of £29 million due to the scheme ending, no new grant for J10 M6 works (a reduction of £18 million), additional grants for the Getting Building Fund (£7 million), new Future High Streets Fund grant of £5 million, new green homes grant totalling £9 million, new social housing decarbonisation fund grant totalling £8 million and additional education capital grant of £3 million.

Performance management and risk management issues

- 4.42 The 2021/22 outturn provides a sound, stable financial foundation to ensure service delivery and continue to drive service improvement. As part of the council's performance management system, managers are set many targets, one of which is to deliver their service targets within the cash limited budget. This has been demonstrated overall in 2021/22, although some services did overspend, with corrective action being taken as appropriate.

Value for Money

- 4.43 Audit Committee was given a draft Value for Money (VFM) conclusion at the November 2022 meeting and the final conclusion is contained within the Audit Finding Report (Appendix 1). The result of the VFM report is that Grant

Thornton are satisfied with that the council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

5. Control Environment

- 5.1 All councils must produce annual accounts in line with the Accounts and Audit (England) Regulations 2015. The Accounts and Audit (Amendment) Regulations 2022 moved the date required for the Financial Statements to be considered and approved by the appropriate Committee of the council from 31 July to the 30 November following the end of the financial year.
- 5.2 In addition these regulations have moved the date the council is required to complete its draft financial statements from 31 May to 31 July following the end of the financial year.
- 5.3 The pre-audit financial statements were signed by the Section 151 Officer on 15 June 2022. This was significantly within the revised deadline of 31 July as provided for within the Accounts and Audit (Amendment) Regulations 2022.
- 5.4 The pre-audit draft financial statements were presented to Audit Committee at their meeting on 27 June 2022 as for information only as they were not required to be approved by Audit Committee. Given the extended timeframe put in place it was seen as best practice to present the draft unaudited Statement of Accounts to Audit Committee for initial review.
- 5.5 An audit update was provided at the November 2022 Audit Committee which detailed that due to the national reporting issues on infrastructure assets that the 30 November 2022 deadline would not be met. A notification was published on the councils website to advise of the reasons for this.

6. Assurance of Controls

- 6.1 The external audit of the financial statements commenced on 16 June 2022 by Grant Thornton. The audit has now been completed with the audited financial statements and Audit Findings Report being presented to Audit Committee for their approval at this meeting.

7. Strategic Risks/Annual Statements

- 7.1 As this report is reviewing performance over 2021/22 there are no associated strategic risks, and there are no strategic risks identified within the Audit Findings Report.

8. Financial information

- 8.1 There are no direct financial implications as a result of this report beyond those reported within Section 4.

9. Reducing Inequalities

- 9.1 Improving ease of understanding of the accounts is intended to make the annual statement of accounts more readily accessible to the general public. There is also a simplified version of the accounts available on the councils website. The accounts will be available on request in different formats, for example, hard copy, soft copy via the web site, Braille and in different languages.

10. Decide

- 10.1 The Committee should consider Grant Thornton's Audit Findings Report (Appendix 1) that details the work and outcome of the audit and decide whether it is satisfied that the financial statements can be approved for publication.

11. Respond

- 11.1 Any issues or queries raised by Audit Committee in connection with the Post Audit Statement of Accounts have been requested by Council Officers in advance of the March 2023 Committee meeting to enable sufficient time to respond and provide Committee with assurance. This process does not preclude further queries and discussions at the March 2023 Committee meeting.

12. Review

- 12.1 The Post Audit Statement of Accounts has been audited. Any material issues that Grant Thornton have discovered during this audit process are reported within the Audit Findings Report (Appendix 1). Any recommendations for improvement will be reflected in future years' accounts.
- 12.2 At the March Audit Committee members will also have the opportunity to consider the audited Statement of Accounts prior to approval, and refresher training will be provided to Committee Members ahead of the meeting to support their scrutiny.

Background papers

Various financial working papers, statutory and other guidance.

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