

**27 June 2022**

**Pre-audit draft Statement of Accounts 2021/22**

**Ward(s):** All

**Portfolios:** All

**Purpose: For Information**

**1. Aim**

- 1.1 To present the pre-audit draft 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 pre-audit draft Statement of Accounts for 2021/22 along with the summarised accounts.

**3. Recommendations**

- 3.1 Audit Committee are requested to:

1. Receive and comment on the council's pre-audit draft Statement of Accounts (Appendix 1).
2. Receive and comment on the council's draft summary of accounts (Appendix 2).

**4. Report detail – know**

***Headlines from the 2021/22 pre-audit draft Statement of Accounts***

- 4.1 As at 31 March 2022 the pre-audit draft Statement of Accounts shows a net position of an underspend against budget of £1.495 million (shown on page 14 of Appendix 1 – pre-audit draft Statement of Accounts).
- 4.2 This underspend has been transferred to the general fund balances to assist in managing the potential impact of pay and price inflation on council services throughout 2022/23. General fund services (including planned use of general reserves and transfers to and from earmarked reserves) as at 31 March 2022 total £19.189 million.
- 4.3 2021/22 has been a challenging year, with the global pandemic impacting greatly on service delivery and financially for a second year. Emerging service pressures and Covid-19 have required action to be taken to limit the council's financial exposure. These actions ensured that the budget is balanced at year-end, with a

sufficient level of reserves to manage existing liabilities and emerging risks which may arise in 2022/23, including the unknown ongoing impact of Covid-19.

- 4.4 The council continued to respond to the financial challenges imposed by Covid-19. Government originally committed to fully compensating councils for the costs of authorities' responses to Covid-19 and has to date allocated £76.730 million of funding (plus £5.369 million of support to Walsall residents and £150.734 million for Walsall businesses) to support these costs.
- 4.5 Of the £76.730 million allocated by central Government, £38.845 million related to 2021/22. The council has been able to manage the financial impact of Covid-19 in 2021/22 within allocated funds.
- 4.6 CIPFA on 12 May 2022 released an urgent consultation with regards to temporary changes to the code of practice to resolve reporting issues on infrastructure assets with a return date of 14 June 2022 and a response to this consultation has been sent to CIPFA.
- 4.7 Accounting for subsequent expenditure on infrastructure assets, and specifically whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for the replaced components that needs to be derecognised, has recently been subject to heightened audit focus, and may also lead to changes to the reporting of gross historical cost and accumulated depreciation (depreciated historical cost).
- 4.8 As part of the consultation CIPFA shared a proposed solution with authorities for the 2021/22 and 2022/23 financial years whilst ongoing discussions with auditors take place. The impact of this would be limited in terms of the changes required to accounts, resulting in a number of disclosure changes aiding the reader of the accounts to clearly identify the value of infrastructure assets and movements to this value in year.
- 4.9 As no updated guidance has yet been issued these potential changes have not been incorporated in to the pre-audit draft Statement of Accounts, however the final statement will be updated to reflect any revised guidance issued by CIPFA in relation to this matter following the closure of the consultation.

#### Balance sheet performance

- 4.10 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.
- 4.11 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. It is generally accepted that a ratio of 2:1 is the minimum an organisation should seek to achieve, however this can change depending on the sector the business operates in, but this level would normally indicate good cash flow performance and financial health.
- 4.12 The council's ratio for 2021/22 is 1.91:1, a decrease from 2.01:1 in 2020/21. The decrease in this ratio is mainly as a result of a reduction in cash and short term

investments compared to 2020/21, which were higher than normal due to the receipt of Covid-19 grants, and as a result of the council utilising cash balances as an alternative of borrowing to fund previous year's capital expenditure.

- 4.13 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 a number of years. A ratio of 1:1 would be the minimum that would be expected, and 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.
- 4.14 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.
- 4.15 The council's balance sheet shows a negative net worth of £133.074 million an improvement from a negative net worth of £317.136 million as at 31 March 2021. Both the negative net worth and the improvement year on year are largely due to the deficit on the West Midlands Metropolitan Authorities Pension Fund.
- 4.16 Excluding the total net pension liability of £615.009 million the balance sheet shows a net asset balance of £481.935 million. This combined with the above ratios for liquidity and assets over liabilities demonstrate a sound financial position.

### ***Control Environment***

- 4.17 All councils must produce annual accounts in line with the Accounts and Audit (England) Regulations 2015. The Accounts and Audit (Amendment) Regulations 2021, made as a result of Covid-19, have 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 September following the end of the financial year.
- 4.18 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.
- 4.19 The pre-audit financial statements were signed by the Section 151 Officer on 15 June 2022. This is significantly within the revised deadline of 31 July as provided for within the Accounts and Audit (Amendment) Regulations 2021.
- 4.20 These pre-audit draft financial statements are for information only as they are not required to be approved by Audit Committee. Given the extended timeframe currently in place it is accepted by Grant Thornton as best practice to present the draft unaudited Statement of Accounts to Audit Committee for initial review.

### ***Assurance of Controls***

- 4.21 The external audit of the financial statements is due to commence on 27 June 2022 by Grant Thornton. The audit is currently ongoing and the audited financial

statements will be presented to Audit Committee for their approval in September 2022.

- 4.22 At the September Audit Committee members will also receive the external auditors report on the financial statements from Grant Thornton for consideration.

### ***Strategic Risks/Annual Statements***

- 4.23 As this report is reviewing performance over 2021/22 there are no associated strategic risks.
- 4.24 This report is concerning the council's pre-audit draft financial statements for 2021/22.

## **5. Financial information**

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

## **6. Reducing Inequalities**

- 6.1 Improving ease of understanding of the accounts is intended to make the annual statement of accounts more readily accessible to the general public. 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.

## **7. Decide**

- 7.1 As this report is for information only there are no matters within this report for decision.

## **8. Respond**

- 8.1 Any issues raised by Audit Committee in connection with the pre-audit Statement of Accounts will be reviewed as part of the audit process. If it requires clarification within the Statement of Accounts these maybe incorporated within the final audited document following discussion with Grant Thornton.

## **9. Review**

- 9.1 The pre-audited Statement of Accounts are subject to audit. Any material issues that Grant Thornton discover during this audit process will be reported in their Audit Findings Report due to be presented to members alongside the audited Statement of Accounts at the September Audit Committee.
- 9.2 At the September Audit Committee members will also have the opportunity to consider the audited Statement of Accounts prior to approval.

## **Background papers**

Various financial working papers, statutory and other guidance.

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