

Audit Committee

26 June 2023

**Agenda
Item No.
12**

Pre-audit draft Statement of Accounts 2022/23

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 2022/23 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 2022/23 pre-audit draft Statement of Accounts

- 4.1 As at 31 March 2023 the pre-audit draft Statement of Accounts shows a net position of an overspend against budget of £0.486 million (shown on page 14 of Appendix 1 – pre-audit draft Statement of Accounts).
- 4.2 General fund services (including planned use of general reserves and transfers to and from earmarked reserves) as at 31 March 2023 total £30.676 million (shown on page 14 of Appendix 1 – pre-audit draft Statement of Accounts).
- 4.3 2022/23 has been a challenging year. Whilst the global pandemic was ending along with its impact on service delivery and council finances, the impact of inflation and the war in Ukraine has created a cost-of-living crisis which has had an impact on council finances. Emerging service pressures and financial pressures resulting from the cost-of-living crisis, such as high inflation rates, 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 2023/24, including the unknown ongoing impact of the cost-of-living crisis.

- 4.4 There has been a large decrease in the net liability on Walsall's share of the West Midlands Pension Fund, moving from a £608.197m liability as at 31 March 2022 to a £92.294m liability as at 31 March 2023.
- 4.5 The main reasons for this gain relates to changes in financial assumptions for Consumer Price Index (CPI) (£70.810m) and the liability discount rate applied based on corporate bond yields (£538.905m). These movements are consistent with the current economic climate as at accounting valuation date, and will be subject to further movements in the following years as interest rates and CPI change.

Balance sheet performance

- 4.6 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.
- 4.7 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 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.
- 4.8 The council's ratio for 2022/23 is 1.74:1, a decrease from 1.96:1 in 2021/22. The decrease in this ratio is mainly as a result of a reduction in cash and short term investments compared to 2021/22, 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.
- 4.9 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.
- 4.10 Walsall has achieved a ratio of 2.73:1 for 2022/23, an increase from 2.14:1 achieved in 2021/22. This is mainly as a result of increases in long term assets (through changes in valuation and capital spend) and a reduction in long term borrowing from £293.858m to £240.918m. 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.

- 4.11 The council's balance sheet shows a net worth of £411.765 million an improvement from a negative net worth of £115.460 million as at 31 March 2022. The negative net worth in 2021/22 was largely due to the deficit on the West Midlands Metropolitan Authorities Pension Fund, with the movement for 2022/23 being in relation to the improvement in the pension fund deficit referred to earlier in this report.
- 4.12 All these indicators demonstrate a sound financial position for Walsall Council.

Control Environment

- 4.13 All councils must produce annual accounts in line with the Accounts and Audit (England) Regulations 2015. The Accounts and Audit (Amendment) Regulations 2022, made as a result of current local audit issues, 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.
- 4.14 These regulations however restored the date the council is required to complete its draft financial statements to 31 May following the end of the financial year unlike the previous three years where it was 31 July.
- 4.15 The pre-audit financial statements were reviewed by the Section 151 Officer on 25 May 2023 with the statements being signed on 31 May 2023. This is within the revised deadline of 31 May as provided for within the Accounts and Audit (Amendment) Regulations 2022.
- 4.16 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

- 4.17 The external audit of the financial statements is due to start week commencing 19 June 2023 by Grant Thornton. The audit is currently ongoing and the audited financial statements will be presented to Audit Committee for their approval in September 2023.
- 4.18 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

- 4.19 As this report is reviewing performance over 2022/23 there are no associated strategic risks.
- 4.20 This report is concerning the council's pre-audit draft financial statements for 2022/23.

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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