

SUBJECT:	AUDITED STATEMENT OF ACCOUNTS 2021/22 - MONMOUTHSHIRE COUNTY COUNCIL
MEETING:	Governance & Audit Committee
DATE:	16th February 2023
DIVISIONS/WARD AFFECTED:	All

1. PURPOSE:

- 1.1. The purpose of this report is to provide the audited Statement of accounts for Monmouthshire County Council for 2021/22, subsequent to the audit process undertaken by Audit Wales, for approval by the Governance & Audit Committee, fulfilling their role in reviewing and scrutinising the Council's financial affairs.

2. RECOMMENDATIONS:

- 2.1. That the committee note that the accounts have been amended since the draft version was published to reflect the outcomes of the external audit process, and as noted within the Audit Wales ISA260 Audit of accounts report shown at **Appendix 2**.
- 2.2. That the Governance and Audit committee approve the final audited Monmouthshire County Council statement of accounts for 2021/22 as shown at **Appendix 1**.

3. KEY ISSUES

The Accounts closure process to date

- 3.1. Legislation in place requires the draft statement of accounts to be produced each year by 31st May following the financial year they relate to, with audited accounts to be published by 31st July.
- 3.2. The Council has historically had a good record of meeting its accounts closure deadlines but during the 2021/22 closure process the finance section continued to face considerable disruption as a result of the need to account for new grant initiatives and substantial unbudgeted grant income received by the Council during the final quarter of the 2021/22 financial year. With staff resources continuing to be under pressure in many of the service areas that provide key information for the statement of accounts, the primary focus of the finance teams was directed to ensuring the ongoing financial sustainability of the Council and reporting the budget outturn position in a timely and accurate manner.
- 3.3. As the above statutory deadlines are fixed, the Council was required to publish a notice highlighting that the accounts could not be prepared to these deadlines, and that they would be produced as soon as was reasonably possible.
- 3.4. Following recognition of the continuing pressures on Local Government, Welsh Government revised their expected timescales for Councils to complete draft accounts from 31st of May to 31st

of August 2022. The Council subsequently published draft accounts on the 8th of August 2022 and these were received by this committee at its meeting on the 8th of September 2022.

- 3.5. A public inspection period commenced from 25th August to 22nd September 2022 and no requests for further information or questions were received.
- 3.6. The external audit process has been ongoing since August 2022 with the expected timescale for completing the external audit and publishing final accounts being extended by the Welsh Government from 31st July to 30th November 2022, then again to 31st January 2023. This extension was largely due to a technical accounting issue arising on infrastructure assets affecting all councils in the United Kingdom.
- 3.7. Despite the best efforts of officers and Audit Wales colleagues it has not been possible to meet the revised 31st January deadline. From a Council perspective, the period has seen reduced finance team capacity and a change in personnel across many of the Council departments which are relied upon to respond to audit queries, and this has subsequently impacted on the ability to bring audit matters to a close.

National issues impacting the closure process

- 3.8. At a late stage in the audit process, the 2021/22 accounting requirements for infrastructure assets were retrospectively updated for all councils in the UK.
- 3.9. In December 2022 the CIPFA Code was updated to reflect that where a local authority replaces a component of an infrastructure asset, it must either determine that the replaced component has a value of nil and therefore that there is no requirement to remove any amount from its balance sheet in respect of the disposal of that component, or it must account for the carrying amount in accordance with the accounting practice in the Code. As a result, CIPFA issued an update to the Code and specifications for future Codes for infrastructure assets which includes from 1 April 2021 to 31 March 2025 a temporary relief not to report gross cost and accumulated depreciation for infrastructure assets.
- 3.10. A further statutory instrument was then issued by the Welsh Government, requiring that where the above change has been made, the Council deems any replaced infrastructure assets to be valued at zero. The instrument requires that councils should disclose in the accounts that this is the case.
- 3.11. The audited statement of accounts shown at **Appendix 1** have been updated to reflect the above Code and legislative changes.

Audit conclusion

- 3.12. It is pleasing to note that the auditors intend to once again provide an **unqualified audit opinion** on the Accounts, and the Council wish to acknowledge the continuing strength of relationship between Council and Audit Wales, and the professional and constructive approach in which audit colleagues have conducted their activities during a particularly challenging period.
- 3.13. The audit report contains a list of misstatements that have been corrected for in full within the final statement of accounts appended. These primarily relate to presentational issues, and to update asset valuations to reflect the increased inflationary environment that was evident at the balance sheet date and has continued into 2022/23.
- 3.14. Of significant note, the audit report also raises the following uncorrected misstatements and single recommendation, to which the council's management response is included alongside to reassure Committee of the ongoing steps being taken to ensure the quality of the accounts.

Uncorrected misstatements:

- **Overstatement of year-end creditors (£261,000)** - where services were incorrectly accrued for in the 2021/22 accounts, despite not being delivered to the Council until 2022/23. This error related specifically to creditors relating to capital projects.
- **Overstatement of year-end creditors (£361,000)** - where a prepayment for services of £361,000 had been incorrectly treated as a creditor rather than a debtor. In addition, the services related to the 22-23 financial year and had been incorrectly accrued into expenditure.

Management comment: The 2021/22 financial year-end process again corresponded with many unbudgeted grants being notified and received during a short period in March 2022. As a result, finance teams were managing many conflicting demands on staff resources and consequently they were required to use greater estimation and judgement in carrying out many year-end calculations. This included basing their calculations on the information provided to them by budget holders and external suppliers who in many instances were under similar pressure given the late notice of grants. As a result, assurances received by the finance teams of the timings of goods/services received proved to be inaccurate upon further review.

For context, the total value of the above uncorrected misstatement represents just 1.2% of the overall Creditors balance held at 31st March 2022.

For future closure periods and where possible, where material accruals are being calculated finance teams will look to obtain additional evidence to support the information put forward by budget holders and external suppliers.

Recommendations:

- *The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021-22 (the Code) requires that transactions with related parties are disclosed within the financial statements. The Code sets out that related party considerations are applicable to both members and their close family. To ensure the completeness of these disclosures we review declarations of interest made by members each year.*

Whilst the Authority collates declarations of interest from members to inform its register of interest, this is only completed at the beginning of the electoral term in line with the Authority's code of conduct. For our 2021-22 audit this meant that most declarations were five years old.

For annual accounts purposes and compliance with the Code, it is recommended that that an annual declaration is obtained from each member, including nil returns.

Management comment: Recommendation accepted in full. Despite additional efforts to increase the response rate of returns received, it is recognised that the final position was incomplete. Officers will review the process moving forward and identify options for ensuring returns are completed in full, including nil returns. These options will explore the approach of aligning with the requirement for related party information for the accounts with the requirement for annual declarations of interest for Council business.

4. REASONS

- 4.1. To approve the Council's final audited statement accounts which incorporate all adjustments for "corrected misstatements" which have been identified by Audit Wales and as noted within their ISA260 Audit of Accounts report shown at **Appendix 2**.

5. CONSULTEES

Deputy Chief Executive (Section 151 Officer)
Chief Officer, People and Governance (Monitoring Officer)
Audit Wales

6. BACKGROUND PAPERS

Appendix 1: Audited Statement of Accounts 2021/22
Appendix 2: Audit Wales ISA260 Audit of Accounts report

7. AUTHORS:

Jonathan Davies
Head of Finance (Deputy Section 151 officer)
Email: jonathandavies2@monmouthshire.gov.uk
Phone: (01633) 644114