

# **Title of report: Statutory accounts 2023/24 progress, accounting policies and estimates**

**Meeting: Audit and Governance Committee**

**Meeting date: Tuesday 26 March 2024**

**Report by: Head of Strategic Finance**

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

(All Wards);

## **Purpose**

To provide an update on progress made against the 2023/24 statutory accounts workplan and present the accounting policies and estimates which inform the financial statements.

## **Recommendation(s)**

**That:**

- a) **arrangements for the preparation of the 2023/24 statutory accounts, including management arrangements to identify and evaluate accounting estimates, are reviewed and confirmed as satisfactory; and**
- b) **The accounting policies which will inform the preparation of the 2023/24 statutory accounts are approved.**

## **Alternative options**

1. There are no alternative options. The Local Audit and Accountability Act 2014 requires the council to produce a Statement of Accounts in accordance with the Accounts and Audit Regulations 2015 (as amended).

## **Key considerations**

2. The council is required to prepare an annual Statement of Accounts in accordance with the Accounts and Audit Regulations 2015 (as amended) and the 2023/24 Code of Practice on Local Authority Accounting in the United Kingdom (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement of Accounts presents the overall financial position of the council and comprises: a narrative report and annual governance statement, comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, collection fund statement, group accounts and supporting notes.

## **2023/24 Statutory accounts progress**

3. The statutory deadline to publish the 2023/24 draft Statement of Accounts is 31 May 2024, with External Audit sign-off to be completed by 30 September 2024. The council's detailed closedown plan is built around these deadlines to ensure timely preparation of the financial statements and working papers to support the audit process.
4. The Finance team are on target with the preparation work for the Statement of Accounts and responses to support external audit planning and initial risk assessment activity by our external auditors: Grant Thornton UK LLP.

## **Accounting policies 2023/24**

5. Accounting policies are the specific principles, bases, conventions, rules and practices applied by the council in preparing and presenting financial statements. For 2023/24, and as per the prior year, the notes to the 2023/24 Statement of Accounts will include the relevant accounting policies.
6. Following a review, there are no changes proposed to the accounting policies to be applied in 2023/24. These are detailed in appendix 1.

## **Accounting estimates 2023/24**

7. The preparation of financial statements requires the council to make judgements, estimates and assumptions which affect the value of assets and liabilities reported at the balance sheet date and amounts recognised as income and expenditure in the year.
8. The notes to the 2023/24 financial statements will disclose the material accounting estimates included in our balances and transactions, and the models and assumptions on which they are based. Disclosure requirements include whether the risk is mitigated by the use of an external specialist, e.g. an asset valuer or a pension actuary, and a sensitivity analysis to show the range of reasonably expected outcomes for the balance/transaction.
9. The council has identified material accounting estimates which inform balances and transactions for the year ending 31 March 2024 as: valuation of property, plant and equipment, depreciation and the valuation of the pension fund net asset/liability.
10. The assessment of material accounting estimates in year includes consideration of the requirement for specialised skills and knowledge from management experts e.g. asset valuations and investments, a review of the methods, models and assumptions used to inform the accounting estimates and consideration of the degree of estimation uncertainty relevant to each accounting estimate. This assessment is included in appendix 2.

## **National Context: Local Authority Reporting Delays**

11. Whilst the council is up to date with published financial statements and a corresponding audit opinion for all financial reporting periods up to and including 31 March 2023, delays in publishing local government audited accounts have increased significantly in recent years and there are a significant number of local audits in England which remain outstanding.
12. The recent Department for Levelling Up, Housing & Communities (DLUHC) Consultation: Addressing the local audit backlog in England, sought views on amending the Accounts and Audit Regulations 2015 (as amended) as part of a package of cross-system measures to reset and clear the backlog and to put the system on a sustainable footing.
13. The consultation outlined proposed changes across three phases of delivery.
  - a. Phase 1 proposes the implementation of a backstop date for all financial years up to and including 2022/23 to reset and clear the backlog of historical audit opinions. Under the measures proposed, audit teams will be permitted to issue an opinion even where little to no substantive testing has been carried out.
  - b. Phase 2 proposes further backstop dates to enable recovery from modified and disclaimed audit opinions without a recurrence of the backlog.
  - c. Phase 3 proposes longer term reform to address systemic challenges in the local audit system and the financial reporting framework.
14. Whilst the proposed recovery measures will not directly impact on the preparation of the council's statutory accounts for 2023/24 or the planned audit procedures outlined in the External Auditors Audit Plan for 2023/24, it should be noted that the requirement for audit firms to issue multiple opinions by the proposed backstop date of 30 September alongside delivering audit opinions for other sectors and completing 2023/24 financial statement work for authorities with no backlog, will present increased challenge for audit firms.
15. The External Audit Plan for the year ending 31 March 2024 notes that year-end audit fieldwork will be completed between July and September 2024 with the Audit Findings Report to be presented to this committee at its meeting in September 2024. The council Finance team will continue to work closely with the audit team over this period to support the prompt resolution of audit queries and timely delivery of the audit opinion for 2023/24.
16. In addition, the Chartered Institute of Public Finance & Accountancy (CIPFA) Local Authority Code Board issued a consultation in February 2024 on proposals for temporary changes to the Code to aid the recovery of Local Authority reporting and audit. The proposals, which would affect the 2023/24 and 2024/25 Code, include an option to simplify the method of valuation for certain property, plant and equipment assets using specified indexation and an option to reduce the disclosure requirements for pensions reporting.

## **Community impact**

17. Publication of the Statement of Accounts in accordance with statutory requirements helps the council to achieve its code of corporate governance commitment to behave with integrity, demonstrate strong commitment to ethical values, and respect the rule of law. The council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition the council has an overarching responsibility to service the public interest in adhering to the requirements of legislation and government policies.

## **Environmental Impact**

18. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
19. Whilst this is a decision on back office functions and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the Council's Environmental Policy.

## **Equality duty**

20. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –

- a. eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - b. advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - c. foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
21. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

## **Resource implications**

22. There are no new resource implications from this report.

## **Legal implications**

23. Regulation 9 of the Accounts and Audit Regulations 2015 (as amended) requires the following:
  - a. The S151 officer to sign and date the Statement of Accounts, and confirm that they are satisfied that it presents a true and fair view of the financial position of the council at the end of the financial year to which it relates together with the income and expenditure for that financial year; and
  - b. A period of time to allow the public to inspect the accounts. This will commence on 1 June 2024 and last for six weeks; and
  - c. Once there has been a period of public inspection, the committee must approve the Statement of Accounts by a resolution and ensure that the Statement of Accounts are signed and dated but the person presiding at that committee.

## Risk management

24. The risks considered to be significant to production of the Statement of Accounts have been noted in the table below. All risks are considered to be sufficiently mitigated and will be managed by the Strategic Finance management team.

<b>Risk / opportunity</b>	<b>Mitigation</b>
Delays in closedown and financial reporting may mean that the statutory deadline to publish draft statutory accounts is not met.	Closedown and Statement of Accounts production tasks are managed through a detailed project plan monitored by the Chief Accountant. All finance staff are issued with closedown instructions and training.
External auditor resource implications may mean that the audit is delayed. This may mean that the statutory deadline to publish audited accounts is not met, and that internal finance resources are committed to servicing external audit requirements for longer than anticipated.	<p>Working papers and sample evidence are provided to the auditors in line with their time and quality expectations, which leads to them continuing to prioritise our audit in phase 1 of their Local Authority audit programme.</p> <p>There is continuous communication between the audit management and the council Strategic Finance management to enable any potential delays to be dealt with expediently.</p> <p>External auditors report their progress to this committee.</p>
Accounting policies that have been judged to be material to the financial statements may not be applied by all finance officers of the council.	<p>All finance staff are issued with closedown instructions and training.</p> <p>The Statement of Accounts are quality checked by the Deputy Section 151 officer.</p>
Accounting estimates utilised by finance officers of the council may not be the most appropriate, and may result in material errors in the financial statements.	<p>Accounting estimates are reviewed annually by experienced and knowledgeable finance staff.</p> <p>Material accounting estimates are made by external knowledge experts in accordance with their professional standards. These estimates are challenged by council finance staff.</p> <p>External audit provide assurance that accounting estimates made do not result in material misstatements in the Statement of Accounts through their audit opinion statement.</p>

## Consultees

None.

**Appendices**

Appendix 1 Accounting policies

Appendix 2 Accounting estimates

**Background papers**

None identified.