

Agenda Item No 4
Audit & Standards Committee
18 January 2022

Title: Statement of Accounts 2021/22 Update
Lead Officer: Andrew Rollins (01926 456013)
Portfolio Holder: Councillor Hales
Wards of the District directly affected: N/A

Approvals required	Date	Name
Portfolio Holder	12/01/23	Cllr Hales
Finance	12/01/23	Andrew Rollins
Legal Services		
Chief Executive	12/01/23	Chris Elliot
Head of Service(s)	12/01/23	Andrew Rollins
Section 151 Officer	12/01/23	Andrew Rollins
Monitoring Officer	12/01/23	Andrew Jones
Leadership Co-ordination Group		
Final decision by this Committee or rec to another Cttee / Council?	Yes	
Contrary to Policy / Budget framework?	No	
Does this report contain exempt info/Confidential? If so, which paragraph(s)?	No	
Does this report relate to a key decision (referred to in the Cabinet Forward Plan)?	No	
Accessibility Checked?	Yes	

Summary

This report provides an update on the progress of the 2021/22 audit. The External Auditor's Audit Update Report is also presented. Whilst work on the audit is not concluded, it is expected that the auditors will issue an unqualified audit opinion.

Recommendation(s)

- (1) That the Committee notes the 2021/22 Audit Update Report, including the headlines from the audit, key messages arising from the work and the Value for Money (VFM) procedures to date.
 - (2) That the Committee agrees that the Accounts are not adjusted in respect of the Pensions Valuation as highlighted in the Audit Update Report.
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1 Reasons for the Recommendation

- 1.1 The production and subsequent audit of the Council's Financial Statements has been challenging and time consuming this year for both officers and Auditors. Progress on the audit has been outlined by Grant Thornton in Appendix A, The Audit Update Report. Further commentary on these key headlines is provided below.
- 1.2 2021/22 has been a transitional year for the Council in terms of the audit, and as a result the Accountancy team has faced increased challenges. The merger collapse during a key period of the Statement of Accounts production resulted in significant changes affecting staff resourcing in the team, and subsequent gaps in the establishment. Periods of interim arrangements have led to the team only becoming fully established once again in January. Prioritisation has been given to the Council's response to the merger collapse by officers, including responding to information requests and updating forecasts to reflect that schemes and efficiencies linked directly to the merger were no longer going to materialise.
- 1.3 The implementation of a new Finance Management System mid-year, launching November 2021, has also impacted upon the production of the accounts and the audit process. As officers continue to learn how to get the best out of the new system, many tasks have taken longer than expected, with all working papers requiring significant updates. It should be noted that despite these issues the Council remains in a far better position than many other Local Authorities, including some who have also moved across to new Finance Systems in recent years.
- 1.4 The draft 2021/22 Statement of Accounts were published on the 5 September. The statutory deadline for this year was moved to 1 August. The reasons for the delay in publication have previously been reported to members in advance of the statutory deadline, but predominantly are linked to the points raised in sections 1.2 and 1.3.
- 1.5 The accounts have been subject to audit by Grant Thornton, the Council's external auditors. The date for the audited accounts to be signed off was 30 November. As reported to the Committee in November, the auditors have not been able to complete their work to enable the accounts to be signed off by this date.

- 1.6 In order to publish the draft on the 5 September to ensure the audit could commence on time, some notes were incorporated into the statements without the expected or necessary levels of review and had to bypass established quality assurance processes. These typically require a secondary review of the note by a Principal Accountant in the team and are then signed as approved and ready for inclusion. This has led to some notes being incorrect, which will result in changes to the primary statements.
- 1.7 Delays in understanding what is being required by audit, and then subsequently being able to issue the necessary information has resulted in the audit taking longer than expected. Many of these issues have been exacerbated as officers learn how to use the new Finance Management System, but also due to processes being set up as part of the system implementation to reflect what was deemed acceptable in previous years by audit now requiring change.
- 1.8 It should be noted that the issue with the reports provided is that audit consider them to contain too many transactions, which in turn would increase the sample size required, the time taken to complete the sample work and therefore the cost of completing the audit. Officers have worked to ensure reports that could facilitate a smaller sample have been provided. This has proved at times to be difficult, given that the new system was developed and reports produced based on what had worked in prior years from a management, delivery and audit perspective.
- 1.9 This issue also emphasised the increased challenge of completing an audit entirely remotely. During the interim stage of the audit, Grant Thornton had requested that they complete some of the audit 'on-site'. This request was supported in principle, on the condition that a timetable was shared with officers to ensure that the appropriate staff were available in the office for face-to-face work as required. However, this was never raised again as a requirement by Grant Thornton.
- 1.10 In hindsight some of the issues faced in providing the appropriate reports for sampling, in addition to other audit tasks, could have been resolved in a more timely manner with an 'on-site' in person audit. As part of the review into this year's audit, there will be a recommendation from management that some of the audit moves back to being in person. This would bring clear benefits to the clarity and timeliness of requests and responses for both sides.
- 1.11 In addition, Appendix A also provides details of an adjustment identified during the 2021/22 audit to date which will remain uncorrected within the final set of financial statements. The Audit and Standards Committee is required to approve management's proposed treatment of such items.
- 1.12 Audit have reported that the audit of the Warwickshire Pension Fund has identified the gross assets are understated by £13.6m owing to the valuation being received in arrears and the Pension Fund not being able to capture the movement in the value of the investment in the final quarter of 2021/22. Warwick District Council's share of this is £0.81m, meaning that net assets are understated by this amount.
- 1.13 The reason this has not been adjusted is on the basis that it is immaterial, and will be corrected in the next valuation. This decision does not impact on the funding available to the Council. Members will be asked to approve this in the Letter of Representation, which will come to A&S alongside the Audit Findings Report and Statements when complete.

- 1.14 While the audit of the accounts is nearing completion, there is still a considerable amount of audit work outstanding. Work is ongoing with the tasks outlined on page 5 in the Audit Update Report. Therefore, Grant Thornton will not be able to issue their final audit statement and so sign off the accounts until they have finished this work.
- 1.15 The Value for Money work is still to be finalised by the Auditors. This does not have to be confirmed alongside the Accounts. Grant Thornton plan to report on the VFM in a separate Auditor's Annual Report at a future Audit & Standards Committee. After that, the Auditors should be able to conclude the overall 2021/22 Audit.
- 1.16 Having the audited accounts in a position where they can be signed off imminently in the current environment will still be a major achievement, despite the challenges discussed and the delays faced throughout the process. This has only been possible due to the hard work and commitment of the Accountancy Team, officers from across the Council, and also from the external auditors. The close working from all involved has been important in enabling the Council to get to this position.
- 1.17 However, given the points raised within the Audit Update Report, it will be necessary to ensure a full and thorough debrief and review of the process is carried out ahead of the 2022/23 Audit commencing. This will be completed with feedback from External Audit, to enable Officers to be best placed to resolve areas of weakness and deliver continuous improvement, and maximising the potential offered by the new Finance system.
- 1.18 An action plan will then be developed which will be regularly reported to the Chair of Audit & Standards and the Portfolio Holder.
- 1.19 It is expected that the lessons learned this year-end will give more time in the production process by ensuring the agreed timetable does not slip. Further developments to the new Finance Management System, including enhancing the reports and data extracted from the system for year-end will be completed. Staff also now have more experience in using the system, and this should improve the efficiency of the project.
- 1.20 In addition, we have now successfully appointed to all vacant posts on a permanent basis within the Accountancy Team following a year of resourcing challenges. Stability within the team should benefit the process and ensure the team is not as stretched as it has been for large periods of 2022.
- 1.21 Sticking more closely to the timetable will also enable the necessary quality assurance work to be completed prior to the draft publication, minimising errors, and mitigating the concerns raised around quality assurance in section 1.6.

2 Alternative Options

- 2.1 No alternative options are presented for consideration.

3 Legal Implications

- 3.1 N/A

4 Financial

- 4.1 The original scale fee for the audit agreed by Public Sector Audit Appointments (PSAA) was £41,290. Grant Thornton is currently seeking £73,140 for the cost of the audit, with details of causes for this increase included in their report. Much of these requirements reflect increased standards and requirements with which they are due to adhere to. The final fee is subject to change depending on the additional requirements in completing the audit. This will need to be agreed with Warwick District Council, and then agreed by PSAA.
- 4.2 In recognition of some these increased requirements, the Government agreed £15m additional funding towards the cost of the 2021/22 audits, with each local authority receiving £21,285 towards the increased costs.

5 Business Strategy

- 5.1 Warwick District Council has adopted a Business Strategy which sets out key areas for service delivery. The audited accounts support all strands of the Business Strategy by way of confirming how the Council is using its resources.
- 5.2 Health, Homes, Communities,
- 5.3 Green, Clean, Safe,
- 5.4 Infrastructure, Enterprise, Employment,
- 5.5 Effective Staff,
- 5.6 Maintain or Improve Services
- 5.7 Firm Financial Footing over the Longer Term. The National Audit Office issue guidance for auditors, which requires them to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This is covered under Value for Money arrangements, with the Audit Findings Report identifying whether there are any risks of significant weakness in the Council's approach.

6 Environmental/Climate Change Implications

- 6.1 N/A

7 Analysis of the effects on Equality

- 7.1 N/A

8 Data Protection

- 8.1 N/A

9 Health and Wellbeing

- 9.1 N/A

10 Risk Assessment

- 10.1 The closure of the Accounts continues to be a key project across the Council. A detailed timetable and action plan, in conjunction to clearly defined processes, procedures and working papers, are designed to reduce the risks involved in closing the Accounts and producing the Audited Statement of Accounts.

11 Consultation

- 11.1 TBC

Background papers:

Audit Update Report – Appendix A

Supporting documents:

Draft Statement of Accounts 2021/22