

**2022/23 STATEMENT OF ACCOUNTS REPORT****Report of the Deputy Chief Executive (Section 151 Officer)****1. Introduction**

- 1.1 Mazars LLP are the Council's external auditors and have undertaken the audit of the Council's 2022/23 Statement of Accounts.
- 1.2 The Council's draft unaudited 2022/23 Statement of Accounts were made available to the Auditor on the 7 July 2023. The accounts have been prepared to a high standard demonstrating the Council's robust financial management and providing assurance that public resources have been used and accounted for appropriately.
- 1.3 The Audit Committee is asked to consider the issues that have arisen during the audit. The 2022/23 Statement of Accounts updated are presented in a separate document included on this Agenda (Appendix One). Amendments made to the draft accounts as part of the external audit process are highlighted throughout the document.
- 1.4 As part of the audit process, the Deputy Chief Executive (Section 151 Officer) is required to write a letter of representation to Mazars LLP to confirm that he has fulfilled his statutory fiduciary responsibilities on behalf of the Council (a draft version of this is at Appendix Two). This will be carried out following approval of the Statement of Accounts.

**2 2022/23 Statement of Accounts Publication Deadlines**

- 2.1 During the Covid Pandemic, the Accounts and Audit Regulations were amended to extend the deadline for the publication of the draft Statement of Accounts from 31 May to 31 July for both 2020/21 and 2021/22. This Amendment also extended the publishing date for the audited Statement of Accounts from 30 September to 30 November. Ongoing backlogs in audits nationally has meant that the publishing date for audited Statement of Accounts has remained at 30 November. However, the deadline for publishing the draft set of accounts reverted back to 31 May.
- 2.2 Given the ongoing work required for the audit of the 2021/22 Statement of Accounts and that Mazars LLP planned to start their audit work on the 2022/23 Statement of Accounts in July 2023, Officers reported to this Committee in March 2023 their proposals to work towards a more realistic publication date of 30 June 2023.
- 2.3 The 2022/23 Statement of Accounts was actually published on the Council's website on 7 July 2023, with the public inspection period starting Monday 10 July 2023 and ending on Friday 18 August 2023. The delay in publication of one week was due to a pensions valuation issue impacting the 2021/22 Statement of Accounts and therefore the 2022/23 Statement of Accounts as well. The revised pensions reports for both 2021/22 and 2022/23 were received on 27 June 2023, which then required time to work the revised figures into the accounts.

### **3 Department for Levelling Up, Housing and Communities Proposals for Addressing Local Audit Delays**

- 3.1 In July 2023, DLUHC issued their proposals for addressing the issue of the backlog in the audit completion of local authority Statement of Accounts. At that time, there were almost 520 outstanding local audits dating as far back as 2015/16.
- 3.2 Working with the National Audit Office (NAO), DLUHC have set a series of statutory deadlines for account preparers and auditors to clear the backlog of delayed audits. For outstanding Statement of Accounts from 2015/16 to 2022/23, the statutory deadlines are as follows:-
- 31 December 2023 for Statement of Accounts 2015/16 to 2019/20;
  - 31 March 2024 for Statement of Accounts for 2020/21 and 2021/22; and,
  - 30 September 2024 for Statement of Accounts 2022/23.
- 3.3 To meet these statutory deadlines, auditors are required to provide as much assurance as possible for the outstanding years, reporting as normal any significant concerns they have about an organisation's financial controls, financial reporting and financial resilience, governance and risk. However, it is recognised that the statutory deadlines may result in qualifications and disclaimers of opinion in the short-term for some local authorities.
- 3.4 Whilst these deadlines will address the current backlogs in local audits, DLUHC recognise that longer term change is required in order to prevent a recurrence of the backlog and is working on this with a number of organisations, including the Financial Reporting Council, NAO, CIPFA and Local Government Association.
- 3.5 Stockport is in a better position than many other local authorities with only the audits of the 2021/22 and 2022/23 Statement of Accounts outstanding and these are now being addressed in this report and the 2021/22 Statement of Accounts report elsewhere on the Agenda.

### **4 2022/23 Statement of Accounts - Key Issues**

- 4.1 Each year CIPFA introduce new accounting standards and amendments to existing accounting standards as well as other improvements to the Local Authority Accounting Code of Practice. There were no major changes for the Council's Accounts for 2022/23.

### **5 Adjustments and Updates to the 2022/23 Draft Statement of Accounts**

- 5.1 At the time of writing this report, the Auditor has not identified any material adjustments to the Council's draft 2022/23 Statement of Accounts during their audit work. This is a significant achievement for the Finance Team, as the task to prepare the Council's accounts and comply with International Accounting Standards and the CIPFA Code of Practice continues to be a very challenging one.
- 5.2 As part of this year's audit process, Mazars LLP has carried out extensive testing on the Statement of Accounts, including a series of audit reviews by the Audit Team, Mazars LLP's Technical Audit Team and the Audit Manager. During this process, the Council has agreed to a number of improvements to disclosures,

narrative and presentation to help improve readability and understanding for users of the accounts, in addition to disclosure adjustments. The Audit Completion Report (elsewhere on the Agenda) provides information about their findings. All changes to the 2022/23 Statement of Accounts are minor in nature, mostly presentational, and are highlighted in the document, which can be found at Appendix One.

- 5.3 Section six of the Audit Completion report provides details of five unadjusted misstatements identified. These are all minor in nature, none are material, and it is important to note that most of the figures reported are an extrapolation of the misstatement identified based on the sample size. A summary of these misstatements are as follows:
- From the sample of expenditure items, there was just one invoice for £0.04m that was found to be accounted for in the wrong financial year;
  - Three of the misstatements relate to Property, Plant and Equipment (PPE) and Investment Asset valuations.
  - The fifth unadjusted misstatement is due to an error identified during the Greater Manchester Pension Fund (GMPF) audit and affects all Greater Manchester Authorities.
- 5.4 Mazars LLP has included a recommendation regarding the assumptions made in the application of Modern Equivalent Asset when valuing PPE. The accounting and valuation guidance is not prescriptive on this specific assumption regarding the Modern Equivalent Asset, and it is an area for valuer judgement. The valuer's interpretation of this technical assumption has been adopted consistently with prior year valuations. However, in line with this recommendation, this will now be amended in future years' valuations.
- 5.5 It is important to note that all of the changes made to the 2022/23 Statement of Accounts listed above are purely technical accounting adjustments, which do not impact on the Council's General Fund position, i.e. there is no impact on Council Tax payers as a result of these changes being made.

## **6 Outstanding issues relating to the audit of the 2022/23 Statement of Accounts**

- 6.1 Whilst the audit of the 2022/23 Statement of Accounts is substantially complete, an issue has recently come to light regarding the pension asset figure reported. There is a Net Pension Asset of £118.588m for 2022/23 (it is usually a Net Pensions Liability). International Accounting Standard IAS 19 requires that the employer considers the recoverability of any such asset and there must be economic benefit, for example, in reduced contributions or a cash refund, available to the employer to enable this recovery. The amount that an employer could technically recover is called the asset ceiling and the figure reported in the accounts should be the lower of the pension asset or asset ceiling figure.
- 6.2 The Council obtained an asset ceiling report based on a future working lifetime of the employer of 7.7 years and this produced an asset ceiling of £14.447m, therefore this has been recorded in the Balance Sheet as at 31 March 2023. Mazars LLP's Technical Team have reviewed the asset ceiling calculation provided by the actuary and concluded that the assumption about the future working lifetime of the employer being 7.7 years is incorrect and it should be over an indefinite period instead.

- 6.3 It is expected that the change in this assumption will produce a much higher asset ceiling value and that this is likely to be greater than the Net Pension Asset in the actuary's report. This means that the current Net Pensions Asset currently reported on the Balance Sheet is understated by up to a maximum of £104.141m.
- 6.4 The revised figure reported in the Balance Sheet will be the lower of the Net Pension Asset as per the actuary's report in June 2023, which is £118.588m, or the revised pensions asset ceiling calculation.
- 6.5 Once the revised pensions asset ceiling calculation is received, the changes to the Statement of Accounts will be made. It is important to note that the changes being made are a technical accounting issue based on the interpretation of accounting standards, it is an accounting entry and has no impact on the Council's General Fund position or future pensions contributions.
- 6.6 In addition to the above, a national issue has emerged regarding the use of Reinforced Autoclaved Aerated Concrete (RAAC) in public sector buildings. RAAC issues have been widely reported. There are significant concerns over the safety of buildings where RAAC has been found and it therefore could call into question the value held on the Council's Balance Sheet for any such properties identified.
- 6.7 The Council is urgently undertaking significant survey works on all properties considered to be at risk. A cautious approach has been taken and the at-risk properties have been selected purely based on age and type of building. This work is continuing but the Council has not found any material issues relating to RAAC that would impact the PPE valuation in the Statement of Accounts, and based on the works carried out, is not anticipating any material issues to arise.
- 6.8 Officers are currently working on the 2022/23 Whole of Government Accounts submission and the Audit Completion Certificate will not be issued until this audit is complete.

## **7 2022/23 Statement of Accounts Approval**

- 7.1 Section 6 of this report, sets out the outstanding issue regarding the Net Pension Asset and RAAC. The Audit Committee is recommended to consider the 2022/23 Statement of Accounts as presented and that it delegates responsibility for the final approval of the Council's 2022/23 Statement Accounts to the Deputy Chief Executive (Section 151 Officer) in consultation with the Chair of the Audit Committee once advised to do so by the External Auditor. However, if there are any further issues brought to the attention of the Council by the external auditor requiring a material change to the Accounts, then the revised Statement of Accounts will be brought back to Audit Committee to approve.

## **8 Conclusions and Recommendations**

- 8.1 The Audit Committee is asked to:

- Consider the Council's 2022/23 Statement of Accounts (Appendix One);
- Note the Council's 2022/23 Statement of Accounts audit must be completed no later than the 30 September 2024 as set out at section 3.

- Note the Draft Management Letter of Representation 2022/23 (Appendix Two); and,
- In the event of no material changes, other than as a result of the revised pensions asset ceiling report, delegate the approval of the 2022/23 Statement Accounts to the Deputy Chief Executive (Section 151 Officer) in consultation with the Chair of the Audit Committee on receipt of advice from the External Auditor.

### BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Jonathan Davies on telephone number Tel: 218 1025 or alternatively email [jonathan.davies@stockport.gov.uk](mailto:jonathan.davies@stockport.gov.uk)