



Member Report

Financial Accounting Updates 2022/23 and Changes to Accounting Polices for 2023/24

Report to: Governance Committee

Report from: Phil Winstanley

Portfolio: Resources

Report Date: 22 April 2024

Decision Type: Governance Committee – for information

Council Priority: All

HEADLINE POSITION

1.0 Summary of report

1.1 This report provides Governance Committee with an update on the 2022/23 financial accounts, the key dates for the Council to produce draft and audited financial accounts for 2023/24 and Accounting Policies for the financial accounts process in 2023/24 & future years.

2.0 Recommendation

2.1 That Governance Committee note:

- The cause of ongoing delays to the external audit of the 2022/23 financial accounts,
- The proposed statutory dates for producing financial accounts in draft and audited form, for 2023/24,
- The amendments to the accounting policies of the Council in 2023/24 and future years.

DETAILED PROPOSALS

3.0 What are the objectives of the report and how do they link to the Council's priorities.

Each year the Council is expected to produce a Statement of Financial Accounts which provides information to all stakeholders, explaining how resources are used, the net value of the Council's assets and liabilities, and provides an indication of the financial health of the Council. These financial accounts are subject to an external audit assessment which is performed by Mazars.

4.0 Progress update on completion of the Financial Accounts

4.1 2022/23 Draft Financial Accounts

The 2022/2023 accounts have been conditionally approved by Governance Committee subject to final confirmation from Mazars that there are to be no further changes. Mazars are awaiting assurances from the External Auditors of the Teesside Pension Fund to complete their final due diligence work. As previously reported to Governance Committee, Mazars anticipated the conclusion of the 2022/23 audit by late March 2024. A verbal update will be provided by Mazars on the day of the governance committee meeting.

4.2 The statutory deadline for the completion of the audit of the 2022/23 accounts was 30 September 2023. This deadline was missed due to the prioritisation of the completion of the 2021/22 accounts and delays auditing the Teesside Pension Fund. As mentioned in previous reports, the statutory deadline was also missed by most English local authorities, for similar reasons experienced by the Council, so therefore we are not in a unique position in this respect.

4.3 DLUHC, working with the Financial Reporting Council (FRC) and other partner organisations have published proposals to address the delays to audit completion across the sector. The measures involve three phases of activity:

1. Reset – Legislating for a statutory backstop date for the publication of audited financial statements up to and including financial year 2022/23. Auditors should issue opinions based on the work they have completed by the back stop date – which may lead to a modified opinion. Auditors are expected to prioritise to ensure that their audit work provides as much assurance as possible ahead of this date. The proposed backstop date for the reset phase is 30 September 2024.
2. Recovery – a series of statutory backstop dates covering the financial years 2023/24 to 2027/28 to allow auditors to rebuild assurance over a five-year period of local bodies' financial information, which has been subject to a modified opinion as part of the reset. To reduce burdens on preparers and auditors, CIPFA will make temporary changes to the Code of Practice on Local Authority Reporting.
3. Reform - the FRC, alongside DLUHC and other system partners, will continue to work to address systemic challenges in the local audit system and embed timely financial reporting and audit.

4.4 It is anticipated that the 2022/23 accounts will be signed off well in advance of the reset backstop date of 30 September 2024, however this will depend on the progress of the audit of the Teesside Pension Fund and the subsequent work required by Mazars to complete their work.

4.5 Statutory Dates for the preparation of the year-end financial accounts:

The Government has published instructions advising that local authorities need to have prepared draft financial accounts (which are signed by the Section 151 (Chief Finance) Officer by 31 May 2024.

- 4.6 Officers have put in place a closedown timetable to try to achieve this deadline however the timescales are extremely challenging. Officers may require extra time beyond 31 May 2024 depending on whether the sign off of the 2022/23 year-end accounts has been completed with no further adjustments. Time scales to produce draft accounts are also influenced by the requirement to obtain external information and valuations from third parties, which can prove challenging to obtain in a timely fashion. The Council will seek to publish draft accounts and report to Governance Committee on the key features of the Accounts in early July 2024. The 2022/2023 accounts were published in draft on 30 June 2023 (1 month late). Less than 30% of Unitary authorities met the deadline of 31 May 2023 last year.
- 4.7 The audit backstop proposal for 2023/24 would require the audit of the 23/24 accounts to be completed by 31 May 2025. Auditors are focussed on clearing the backlog of overdue audits. Some Local Authorities are still awaiting audit completion of 2021/22 and earlier years. To provide assurance to as many organisations as possible, auditors are prioritising clearing overdue audits before the backstop date of 30 September 2024. This may impact on the speed that the 2023/24 audit progresses, however, Mazars have indicated, for the moment, they consider there to be sufficient time to complete the Council's audits within the backstop dates.
- 4.8 For the 2023/24 Accounts and Audit, Mazars have appointed a new Audit Engagement Lead, James Collins, who will replace Gavin Barker. Auditing Standards require that a firm must rotate Engagement Leads after 5 years. Campbell Dearden will remain as Engagement Manager, which will ensure continuity.
- 4.9 As part of the draft financial accounts reporting process, Governance Committee shall also be provided with a refreshed Annual Governance Statement for 2023/24 which sets out the Governance arrangements in place to conduct the Council's functions and operations effectively.

4.10 Accounting Policies

The Council's accounting policies are included within the annual Statement of Financial Accounts and provide a framework for how the Council accounts for all financial transactions and measures the net financial worth of the value of assets, liabilities and reserves held on the Balance Sheet. These policies do not directly impact on the Council's Corporate Priorities. However, these policies underpin the way in which we prepare our annual financial statements and reflect how financial resources are managed by the Council in a sustainable way. These accounting policies are set out in such a way as to comply with 'the Code of Practice on Local Authority Accounting in the United Kingdom' (the Code) and International Financial Reporting Standards (IFRS).

- 4.11 One of the terms of reference for the Governance Committee is to annually approve the audited Statement of Accounts for the Council. Each year the Committee must consider any changes in accounting policy before the preparation of the year end accounts. The Council's current accounting policies are set out in the latest unaudited Statement of Accounts for 2022/23 which were last

considered by Governance Committee on 5 February 2024.

4.12 A consultation was published in February 2024 to introduce possible changes to the 2023/24 Code. These will affect financial years 2023/24 and 2024/25 only and are being considered to aid the recovery of local authority reporting and audit. The two areas being considered are an option to simplify measurement of operational property, plant and equipment using specified indexation and reducing the required disclosures for pensions reporting. The consultation closed on the 28th March and the outcome will be reviewed for any impact on the production of the annual accounts.

4.13 As with the 2022/23 Accounts, the Council will need to be mindful of its Group Company arrangements, particularly Cygnet Family Law and Veritau, and ensure suitable disclosures are made about these arrangements, including the financial transactions and balances held with these organisations.

4.14 Future Years

A more significant accounting policy change for future years, for which the Council needs to make early preparations is IFRS 16 – Leases. This financial reporting standard will be applied to local government accounts from 2024/25 and will require the Council to undertake a wholesale review of all lease arrangements. Far more lease arrangements will be brought into the scope of this accounting standard and require more lease-type arrangements to be brought on balance sheet – in terms of the value of the asset being leased by the Council and the estimated value of the long-term lease liabilities, which in turn will cause an additional level of borrowing held by the Council. Governance Committee will be briefed in more detail about this development in due course.

4.15 HM Treasury are currently consulting on significant changes to how public sector non-investment assets are revalued, in terms of the valuation method used and the frequency of the valuation process. The consultation is proposing options to simplify the valuation process, reduce costs of undertaking valuations of these categories of asset and in turn seek to reduce the costs of externally auditing these valuations. This is anticipated to be implemented from 1st April 2025.

5.0 Impact Assessment

- 5.1 Social Value** - The Council's accounting policies and arrangements for producing financial accounts promote a high level of transparency in reporting financial transactions, how balance sheet items are valued and the wider financial arrangements it has in place.
- 5.2 Legal** - The Council are required by statute to prepare financial accounts in line with specified accounting practices. The Council must adhere to the CIPFA Code of Practice for Local Authority Accounting. The Code of Practice is influenced by International Financial Reporting Standards.
- 5.3 Financial** - The Council's accounting policies and external audit arrangements are a fundamental aspect of the Finance Function's annual activities. The accounting standards are complex and require a significant

level of input and due diligence to ensure compliance with these policies. A major risk of not adhering to changing accounting policies is the potential risk of qualification of the Council's statement of financial accounts by Mazars. This would create significant reputational risk for the Council.

- 5.4 **Human Resources** - Staff time is required to implement the accounting policies of the Council and prepare financial statements by the statutory timescales prescribed by Government.

6.0 Implementation Plan

6.1 Timetable for Implementing Decision: The 2022/2023 Accounts have been conditionally approved subject to any issues identified in the audit of the Teesside Pension Fund. Governance Committee will be advised when the 2022/23 audit certificate has been signed. Officers are working to a timetable of 31 May 2024 to produce draft financial accounts for 2023/24 which need to be authorised for issue by the Council's Director of Finance (Section 151 Officer). Governance Committee will be reported to on progress in July 2024. However there remains a risk this deadline will not be achieved. The National Government have proposed a statutory deadline for all local authority 2023/24 accounts to be audited by 31 May 2025 under the transitional audit backstop arrangements. Progress updates will be provided to Governance Committee during the year.

6.2 Lead Officer – Phil Winstanley

6.3 Reporting Progress – Governance Committee shall be given regular updates on progress during planned Governance Committees (meeting dates to be confirmed following Borough Council elections) during 2024/25.

6.4 Communications Plan - The published financial accounts will be uploaded on the Council's website and the Council will need to commence a Public Inspection Notice Period, where electors can raise questions and request more information about the Council's financial accounts for 2023/24.

7.0 Consultation and Engagement

Governance Committee will continue to receive updates on developments arising from the delays and backlogs in signing off the financial accounts of the Council and other local authorities. DLUCH's three stage plan to tackle overdue audits may result in qualified opinions where completion has not been achieved by backstop dates. The Council is in a more favourable position than some other Local Authorities as the 2022/23 audit is close to completion. Mazars will remain in place as auditors ensuring continuity, this eliminates the potential problems that may have occurred with a change in auditor, for instance auditing opening balance positions where prior years have been qualified by default due to the imposed audit backstop dates.

The Updates on changes to the Council's accounting policies are made by the Director of Finance to Governance Committee. In addition, the impact of these

changes is discussed at regular update meetings with Mazars. Any significant issues or changes in policy will be discussed with Mazars in more detailed in advance of the Draft Financial Statements being produced.

8.0 Appendices and Background Papers

None

9.0 Contact Officer

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