HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	25 May 2023
Title:	Position statement on the 2021/22 audit of the statement of accounts
Report From:	Rob Carr, Deputy Chief Executive and Director of Corporate Operations

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Purpose of this Report

1. The purpose of this report is to provide members of the Audit Committee with a position statement on the 2021/22 audit of the County Council's statement of accounts.

Recommendation(s)

2. That the Audit Committee notes the position statement provided by the Chief Financial Officer on progress with completion of the 2021/22 audit of the statement of accounts.

Executive Summary

3. The Department for Levelling Up, Housing and Communities (DLUHC) wrote to chief executives, chief financial officers, and local audit firm partners in March 2023 regarding local audit system leadership and local audit delays.

4. Within this letter, DLUHC encouraged local authority CEOs and CFOs and their audit partners to each provide their audit committees with a written position statement on:
    - Outstanding matters relating to the audit
    - The impact this position could have on the audit opinion and any reporting under statutory audit powers
    - The actions and timetable to resolve these

- Judgement on how realistic and achievable this is.

5. This is to *“allow the committee to determine whether it has sufficient assurance on the action plans and if not what additional information and explanations it requires to make a decision that balances a realistic and swift timetable for authorising the historic audited financial statements for issue.”*

6. The Audit Committee has received formal updates on the 2021/22 accounts from officers and the external auditor (EY) at its meetings of September and December 2022. This report now provides a position statement to the Audit Committee on progress with concluding the 2021/22 accounts and audit process and should be viewed alongside the position statement from EY as external auditor that is presented elsewhere on the agenda for this meeting.

7. In summary, the conclusion of the 2021/22 audit has been delayed primarily due to two technical accounting issues that have arisen nationally and are not specific to the County Council’s accounts.

8. First, as has been reported to the Audit Committee previously, a national issue arose towards the end of the 2021/22 financial year with regards to how local authorities have traditionally accounted for infrastructure assets. After efforts over many months nationally to find a permanent solution, a temporary change to the CIPFA Code of Practice was published in November 2022 alongside the introduction by DLUHC of a statutory instrument in December 2022. EY have confirmed that the County Council’s updated accounts are compliant with the requirements of the Code and the statutory instrument.

9. Where the sign-off of accounts by auditors has been delayed beyond 31 March 2023, this has created a new issue for local authorities across the country because of the timing of the triennial LGPS pension valuation. The recently received valuation report from the actuary relates to the position at 31 March 2022 and given this is now available the County Council will need to update its accounts for 2021/22. EY need to conduct audit testing of this new IAS 19 information and the actuary has been engaged to provide answers to allow EY to gain the assurance required to close this audit point.

10. There are no other significant points outstanding and every indication is that EY will issue an unqualified audit opinion based on current information. An updated version of the statement of accounts will be presented to the Audit Committee once the outstanding work on pension assets and liabilities has been concluded.

11. The extended timescales for the completion of the 2021/22 accounts and audit process diverts staff resource away from other priorities and is likely to lead to additional audit fees. CIPFA and Government should continue to be encouraged to make changes to the Code of Practice in order to simplify and

streamline the statement of accounts for local authorities to ensure that the accounts focus on the information that is of most relevance and importance to stakeholders. This should also ensure the accounts are quicker and easier to audit, providing more relevant and timely assurance to interested parties.

Background

12. The Accounts and Audit (Amendment) Regulations 2022 required draft accounts for 2021/22 to be published ready for the period of public inspection by 31 July 2022.[1] The County Council achieved this deadline for publishing its draft accounts.

13. The Audit Committee received the statement of accounts at its meeting of 28 September 2022 following a briefing on the accounts. At this point, the audit was well progressed however a national technical accounting issue relating to highways asset valuations was ongoing and it had not therefore been possible for EY to conclude their audit of the accounts. No other material issues had been identified by the auditors and the Audit Committee agreed to approve the accounts for 2021/22 subject to a further report being taken to the committee indicating a resolution to the national issue relating to infrastructure assets.

14. The Accounts and Audit (Amendment) Regulations 2022 required the audited statement of accounts for 2021/22 to be published by 30 November 2022[2] or, where this was not possible, the publication of a notice explaining why the accounts had not been published by this date. The audit of the accounts was not completed by 30 November 2022 and so the County Council published a notice on its website in accordance with the requirements of the regulations.

15. The notice published by the County Council explained that the audit was substantially complete apart from work relating to how infrastructure assets are valued, and that this was a technical accounting issue affecting local authority accounts across the country.

16. When concluded, the agreed resolution to the national issue relating to infrastructure assets was twofold:

    - CIPFA introduced a temporary change to the Code of Practice in November 2022 to remove the need to report gross book value and accumulated depreciation for infrastructure assets. This was

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[1] The amendment to the regulations set the deadline as 31 July for 2022 and then reverted to 31 May for subsequent years

[2] The amendment to the regulations set the deadline as 30 November for 2022 and then 30 September for the subsequent 6 years

followed by a bulletin providing guidance on the implementation of the change in January 2023.

- DLUHC introduced a statutory instrument in December 2022 allowing local authorities and their auditors to treat brought forward balances on infrastructure assets from previous years as correct; and to assume that the value of any component of an infrastructure asset being replaced had reached £nil value.

17. These changes are both temporary and allow additional time for CIPFA to develop a permanent solution while also avoiding the widespread qualification of local authority accounts.

18. The Audit Committee received an updated version of the statement of accounts at its December 2022 meeting incorporating the required changes to the accounts to reflect the change in the CIPFA Code and the introduction of the new statutory instrument. The meeting was prior to the statutory instrument being enacted and the CIPFA bulletin being issued, but discussions between officers and EY did not anticipate any issues.

Position statement on the 2021/22 audit

Infrastructure assets

19. The change in the Code and introduction of the statutory instrument meant EY needed to test the County Council's updated accounts against these requirements. Following the CIPFA bulletin in January 2023, EY posed a number of questions to officers. Officers have provided EY with the audit evidence required and EY have confirmed that the accounts are compliant with the requirements of the Code and the statutory instrument.

Triennial pension valuation

20. In the intervening period, the County Council has received the triennial valuation report relating to the Hampshire Pension Fund. The valuation date is 31 March 2022 however the valuation report was not available until 31 March 2023, in line with the standard timescales for the actuary issuing the valuation report. Because the valuation report relates to the position at 31 March 2022, the County Council has to consider whether there is a need to update the information on pension assets and liabilities in its accounts.

21. IAS 19 (Employee Benefits) is the accounting standard used when considering pension assets and liabilities. The actuary produces an IAS 19 report annually to support the accounting entries for pensions within the

statement of accounts. The County Council has requested an updated IAS 19 report for March 2022 from the actuary (Aon). This has highlighted several large differences when compared with the previous estimate prepared by the actuary a year ago that was used in the draft accounts.

22. The County Council will therefore be updating its 21/22 accounts to make use of this more up to date information. This information would not typically be available when producing the accounts to the standard deadlines, but has become relevant this year due to the extended timescales as a result of the delay in completing the audit following the national issue surrounding the accounting for infrastructure assets.

23. EY need to conduct audit testing of the new IAS 19 information and have asked a number of questions and the actuary has been engaged to provide answers to allow EY to gain the assurance required to close this audit point.

24. This outstanding issue relates to the pensions information in the County Council's accounts as an employer body of the LGPS and does not impact the Hampshire Pension Fund accounts directly. There is however a requirement for the Pension Fund accounts to be contained within the County Council's accounts and therefore the Pension Fund accounts cannot be signed off by the auditor until this issue has been resolved satisfactorily.

Other outstanding items

25. As set out in EY's update to the Audit Committee, there are a small number of items to be concluded prior to the audit opinion being issued, however there are no significant items.

Impact on audit timescales

26. Officers are working with the EY team to close down the remaining audit points and to answer questions raised on the recently issued updated IAS 19 report, although timescales for this are partly dependent on further information from the actuary.

27. Every indication is that EY will issue an unqualified audit opinion based on current information. An updated version of the statement of accounts will be presented to the Audit Committee once the outstanding work on pension assets and liabilities has been concluded. As stated above, timescales will be dependent on how quickly the outstanding work can be completed. Although not confirmed at the time of writing, EY may be able to give a verbal update on likely timescales at the meeting.

28. The delayed conclusion of the 21/22 audit does have a knock-on impact on the 22/23 accounts process:

- The 22/23 accounts need to state prior year comparators from 21/22 and year on year movements throughout the accounts

- The above point notwithstanding, the publication of the 22/23 draft accounts is on track for the 31 May deadline required in the regulations

- The audit planning report from EY would usually be prepared in the spring, however this year EY have indicated they plan to bring the report to the September Audit Committee meeting

- This indicates that the 22/23 audit is unlikely to be concluded by the 30 September deadline set out in the regulations

Conclusions

29. Hampshire County Council officers continue to liaise effectively with EY in order to progress the audit work required by the relevant standards and Code of Practice. It is important to note that the additional audit work required to conclude the 2021/22 audit is essentially technical in nature and does not impact the financial position of the County Council; neither does it indicate any concern regarding the competence of County Council staff.

30. The additional work does however divert staff resource away from current priorities and is likely to lead to additional audit fees. Therefore, it will be important to continue to urge CIPFA and Government to make changes to the Code of Practice in order to simplify and streamline the statement of accounts for local authorities. In doing so there is the opportunity to make changes to requirements to ensure that the accounts can be provided in a user-friendly format that focuses on the information that is of most relevance and importance to stakeholders and that may also therefore be quicker and easier to audit, providing more relevant and timely assurance to interested parties.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:
It relates to the effective governance of the County Council

Other Significant Links

Links to previous Member decisions:	
Title	Date
Hampshire County Council 2021-22 Audit Planning Report.pdf (hants.gov.uk)	May 2022
Hampshire County Council Audit results report (hants.gov.uk)	Sept 2022
Audit Committee Statement of Accounts report September 2022 (hants.gov.uk)	Sept 2022
Appendix 1 - briefing note on derecognition of parts of infrastructure assets on replacement (hants.gov.uk)	Sept 2022
Audit Committee Statement of Accounts report December 2022 (hants.gov.uk)	Dec 2022
Direct links to specific legislation or Government Directives	
Title	Date
The Accounts and Audit (Amendment) Regulations 2022 (legislation.gov.uk)	

Section 100 D - Local Government Act 1972 - background documents
The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. **Equalities Impact Assessment:**

There are no new proposals in this report requiring an assessment