GOVERNANCE AND AUDIT COMMITTEE

Tuesday, 14 March 2023

Subject: Year End 31st March 2023: Accounting Matters

Report by:	Director of Corporate Services (Section 151 Officer)
Contact Officer:	Peter Davy Financial Services Manager peter.davy@west-lindsey.gov.uk
Purpose / Summary:	To review and approve the accounting policies, actuarial assumptions and materiality levels that will be used for the preparation of the 2022/23 accounts

RECOMMENDATION(S):

1. To approve the proposed Accounting Policies (included at Appendix 1)
2. To consider and make comment on the pension assumptions (as included at Appendix 2)
3. To consider and make comment on the risk assessment (at Appendix 3).
4. To approve the proposed materiality levels as included at section 5.
5. To consider and make comment on the key closedown dates at Section 7
6. To accept the main accounting changes for 2022/23 and onwards as shown at section 2.

IMPLICATIONS

Legal:

The External Audit element of the report is in accordance with the Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015.

Financial: FIN/164/23/PD

None directly from this report. However, the accounting policies and actuarial assumptions used for the accounts will have an impact on the amounts contained within the Statement of Accounts for 2022/23. The levels of materiality set will have minimal impact.

The additional costs associated with the delivery of the Statement of Accounts by the statutory deadline are met from existing budgets.

The Annual Audit fee 2022/23 is anticipated to be £40,486, similar to 2021/22 fee. The Council has provided a budget of £45,300 for the payment of these fees.

Staffing:

Additional temporary staffing resources have been appointed for the process period, in addition, overtime hours are likely to be worked by some members of the Finance Team to ensure the Statutory deadline is met.

Equality and Diversity including Human Rights:

None arising as a result of this report

Data Protection Implications:

None arising as a result of this report

Climate Related Risks and Opportunities:

None arising as a result of this report

Section 17 Crime and Disorder Considerations:

None arising as a result of this report

Health Implications:

None arising as a result of this report

Title and Location of any Background Papers used in the preparation of this report:
CIPFA Code of Practice on Local Authority Accounting 2022/23 Accounts CIPFA Guidance Notes for Practitioners 2022/23 Accounts Both documents are held electronically

Risk Assessment:
There is a risk of material errors should incorrect accounting policies be applied or if the actuary uses inaccurate assumptions. An assessment of all risks is attached at Appendix 3.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**x**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**x**

Executive Summary

The Audit and Accounts Regulations 2015 require Local Authorities to produce and publish their Statement of Accounts by 31 May (changed for both 2020/21 and 2021/22 to 31 July) and an Audited Statement of Accounts by 31 July annually (changed in both 2020/21, 2021/22 and 2022/23 to 30 September)

In producing the Statement of Accounts, the Council follows the CIPFA Code of Practice on Local Authority Accounting 2022/23 (the Code). There have been minimal changes for 2022/23 (see Section 2).

No changes of accounting policies have been made since the production of the 2020/21 financial statements.

The Actuary for the Pension Fund is Barnett Waddingham. The assumptions used by the actuary are included in Appendix 2. At this point in time there are no known proposals in the near future that could impact on these assumptions and therefore it is not recommended that these are challenged.

External Audit have set a materiality level for the Council of £935,000 for 2022/23 and amounts less than £28,000 are considered trivial (i.e., not significant).

An assessment of the risks associated with closing the Council's accounts and producing the Financial Statements has been undertaken and the risk assessment is attached at Appendix 3. After applying the planned mitigation, the majority of risks are coloured green (low risk) with only two risks identified as being high (red).

In 2022/23 the Council reported under the themes of Our People, Our Place and Our Council. There have been no changes to this structure.

1 Background

1.1 The Audit and Accounts Regulations 2015 require Local Authorities to produce and publish their Statement of Accounts by 31 May (changed for both 2020/21 and 2021/22 to 31 July) and an audited Statement of Accounts by 31 July annually (changed for both 2020/21, 2021/22 and 2022/23 to 30 September)

1.2 In producing the Statement of Accounts, the Council follows the CIPFA Code of Practice on Local Authority Accounting 2022/23 (the Code).

1.3 The Council is required to ensure that the Statement of Accounts provides a true and fair view of the financial positon, financial performance and cash flows of the authority. A true and fair presentation requires a faithful representation of the effects of transactions, other events and conditions in accordance with the definitions criteria for assets and liabilities, income and expenses set out in the Code. Compliance with the Code will therefore meet this requirement.

1.4 This report is asking for Members to review a number of matters such as accounting policies, materiality and actuarial assumptions (used for determining the pensions estimates) that will be used for drawing up the financial statements for the year. This review then forms part of the scrutiny process for the Statement of Accounts 2022/23.

1.5 External Audit – 2022/23 Audit Planning

The Accounts and Audit Regulations 2015 require local authorities to approve and publish their Statement of Accounts by 31 May and the audited statements by 30 September respectively for 2022/23.

The Auditor will ultimately give his opinion on whether the Statement of Accounts is compliant with statutory requirements and that they have been prepared in accordance with proper accounting practices, and that adequate arrangements are in place to achieve Value for Money in the use of resources.

The audit will take a risk-based approach, which will be reassessed throughout the process.

2. Changes to the Code of Practice

2.1 The following changes to the Code are effective for the 2022/23 and onwards financial statements:

Code Change	Impact on WLDC	Progress
Confirmation in Module 1 Appendix B of the New or Amended Standards introduced in the 2022/23 Code.	No impact, purely confirmation.	Fully compliant
Updates to the methodology in Module 2, Section G for calculating year-end apportionment of NDR and council tax surpluses and deficits where an authority declared an exceptional deficit in accordance with SI 2020/1202, the Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020.	No impact.	Fully compliant
Updates to the guidance in module 3, Section I on the disclosures for the Dedicated Schools Grant in accordance with the provisions in the Accounts and Audit Regulations 2015.	This is not applicable to the Authority as it does not receive dedicated schools' grant.	Fully compliant
Augmentations to the Appendix to Module 3, i.e., the example financial statements and notes to the accounts; these include changes to the accounting policies, critical judgements in accounting policies disclosure and other clarifications to the reserves disclosures.	No impact.	Fully compliant
Explanation of the interaction of the example disclosures and accounting policies in the Appendix to Module 3 with the illustrations in CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution	No impact	Fully compliant
Confirmation in Module 4, Section F of the Code's provisions to allow authorities to voluntarily adopt the provisions of IFRS 16 Leases in advance of mandatory implementation, in line with the requirements set out in Appendix F	No impact. The Council is not looking to adopt IFRS 16 in advance of the mandatory date.	Fully compliant

Confirmation in Module 4, Section G (service Concession Arrangements) that if IFRS 16 is adopted in advance of mandatory implementation, then the service concession arrangement liability is measured in accordance with the measurement requirements of IFRS 16, as set out in Appendix F. Note that CIPFA/LASAAC is currently considering the accounting requirements for this transaction following central government changes. Separate guidance will follow CIPFA/LASAAC's pronouncements.	No impact. The Council is not looking to adopt IFRS 16 in advance of the mandatory date.	Fully compliant
Discussion in Module 4 of the application of the Scottish Local Government Finance Circular 10/2022 – finance leases and service concession arrangements: statutory guidance.	Not applicable to Authorities in England	Fully compliant
Discussion in Module 4 Section L of the application of the Code's impairment provisions to infrastructure assets	The Council has minimal infrastructure assets.	Fully compliant
Amendments to Module 8, Section B to clarify the treatment of social benefits under IAS37/IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets	No impact	Fully compliant

2.2 In 2023/24 there will be significant accounting changes to IFRS 16 Leases. Under the existing standard, lessees account for lease transactions as either operating or finance leases depending on certain tests and rules, this results in either all or nothing being recognised on the balance sheet. Under the new IFRS 16 all leases will need to be accounted for on the balance sheet as at 31/03/2024.

2.3 No restatement will be required for the 2023/24 accounts, but the Council will need to convert every operating lease to a finance lease unless it is short term (<365 days) or low value (the Council's de-minimis is £10,000 for items added to the balance sheet and this will be applied to the new IRFS 16)

2.4 The Council has been preparing for these changes for the last three years, we have assessed every lease using a model which external audit has been provided with in the last two financial years audit papers. Each year we review all contracts for embedded leases and the finance business partners liaise with services for any new leases. We will have assessed all operating leases and finance leases by the end of March 2024

3. Accounting Policies

3.1 The proposed accounting policies are as detailed at Appendix 1. These have been reviewed to ensure that they reflect the requirements of the latest Code and that they are still appropriate, accurately reflect what has occurred during the year and have been consistently applied.

3.2 Members should note only material accounting policies will be included within the Statement of Accounts.

3.3 No changes of accounting policies have been made since the production of the 2020/21 financial statements.

4. Actuarial Report and Assumptions

4.1 The Council's pension scheme is administered by Lincolnshire County Council with pension contributions included in the county wide pension fund.

4.2 The County Council uses Barnett Waddingham as the actuary for assessing the year end assets and liabilities of the pension fund and the use of these assumptions determines the estimates of its share of the pension fund that the Council is required to reflect within its accounts.

4.3 The actuary completes a formal valuation of the pension fund every three years, with 2019 being the year of the latest valuation which relates to the financial years 2020/21- 2022/23.

The purpose of the formal actuarial valuation is to:

- Calculate the Council's funding position within the fund, and
- Determine the contributions that the Council will pay from April 2020 to March 2023.

4.4 The pension values are comparatively large when taken in the context of the Council's overall budget and spend levels, so any assumptions used for these values will inevitably have a major impact on the Council's accounts, albeit this is a long-term liability which is projected to be funded within 20 years. It is appropriate therefore that they should receive special scrutiny.

4.5 Although the assumptions have been determined by Barnett Waddingham, ultimately it is the Council that is responsible for ensuring that any assumptions used are accurate and will lead to the best estimates possible for use in the accounts for 2022/23.

4.6 The actuarial assumptions report as provided by Barnett Waddingham is included at Appendix 2.

4.7 When reviewing the assumptions used, the Council is required to consider if these assumptions are appropriate having regard to local circumstances. Matters that could impact on any assumptions used usually relate to proposals that may have a major impact on the future i.e., makeup of the workforce, such as pay increases in excess of 3% or outsourcing more than 5% of the workforce.

4.8 At this point in time there are no known proposals in the near future that could impact and therefore it is not recommended that the actuary's assumptions are challenged.

4.9 Estimated values of contributions and deficit reduction payments are submitted to the actuary to take into account when calculating the final IAS19 report for inclusion within the accounts.

4.10 We will also be asking for two reports from the Actuary, the first report to be received in April using estimate investment returns to enable us to process the accounting adjustments required within the statutory deadline. The second report will be received at the end of May and will be on Actual Investment returns. If there is a material difference in the two reports, then further adjustments to the accounts will be required.

4.11 The liabilities for the McCloud/Sargeant judgements (public service pension age discrimination cases) were captured for the 31 March 2022 IAS19 balance sheet figures, as will be the case for 31 March 2023.

4.12 The McCloud/Sargeant judgements relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of gender and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

4.13 On 13 May 2021 the Government issued a ministerial statement on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases relating to age discrimination. The statement confirms that changes will be made to the LGPS Regulations to compensate members directly affected by the change to career average benefits from 1st April 2014. Draft regulations are expected in 2023 and are expected to come into force on 1st October 2023.

5. Materiality Levels for 2022/23

5.1 Members now approve materiality levels that will be applied as part of the closedown process with the expectation that these will greatly assist with speeding up the closedown process and meeting the statutory deadline of 31 May.

5.2 Information is said to be material if omitting it or misstating it could influence decisions that users make on the basis of an entity's financial statements. There are no set materiality levels and each organisation needs to set levels having regard to the size and any special circumstances of the organisation.

- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and

- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

5.3 Materiality is an amount that makes a difference to the understanding of the readers of the accounts - an audit never provides 100% assurance - only “reasonable assurance." For instance, if a company has overstated its revenues by £5 million when its total revenues are £4 billion, then this £5 million is considered 'immaterial.' However, if the company's total revenues are only £50 million, then this £5 million overstatement would be considered 'Material."

5.4 External Audit have set a materiality level for the Council of £935,000 for 2022/23 and amounts less than £28,000 are considered trivial (i.e., not significant).

5.5 In order to meet the very tight statutory deadline there is a fine balance to strike between having absolute accuracy and accepting that there may be minor adjustments to make as part of the audit which would be included in the ISA260 Audit Report. Overall, it would be worth accepting the risk of small under/overspends year on year and possible minor audit adjustments to the accounts since they will not materially affect the Council's overall financial position or the financial statements that will still show "a true and fair view".

5.6 The following levels of materiality are suggested for particular classes of transactions, account balances or disclosures. They remain at the same level as approved for 2021/22.

1. Disclosure of material items of income and expenditure (Note 5) £700,000
2. Manual Accruals - limit of £2,000
3. Disclosures - £750,000
4. 5% of income for continuing operations
5. Related party transactions £10,000
6. Stocks – anything less than £10,000 is charged to revenue in year
7. Fixed assets (Property, Plant & Equipment) – Major components £500,000. Only assets with a value greater than £500,000 will be subject to the componentisation rules as per our policy.

6. Risk Assessment

6.1 An assessment of the risks associated with closing the Council's accounts and producing the Financial Statements has been undertaken and the risk assessment is attached at Appendix 3.

6.2 Each risk has been scored in terms of the likelihood that the event will happen and the severity of the impact if the event happens. Multiplying these two scores together then gives the calculated risk severity. A traffic light colouring system is used to highlight the level of severity.

6.3 These risks are then scored again after applying any actions to be taken to mitigate the risk.

6.4 Members should note that after applying the planned mitigation the majority of risks are coloured green (low risk) with only two risks identified as being high (red).

6.5 Ensuring adequate skilled resources are in place to deliver to the statutory deadline will include a mixture of solutions, interim agency, additional hours and overtime payments

7. Key Closedown Timetable

7.1 In order to achieve the closedown for the 2022/23 accounts, officers have been working hard over the last few years to reduce the length of time to achieve tasks and also to bring forward the deadlines.

7.2 Tasks and work practices have been reviewed to take on board both accounting changes and the need to streamline/reduce workload and work more efficiently.

7.3 Last year the Statement of Accounts was published on the Council website within the revised statutory deadline of 31 July 22 due the Coronavirus pandemic. The finance team are committed to achieve the end of May deadline as in previous financial years.

7.4 A detailed timetable is produced (with some 300+ tasks) for officers' use that not only produces the Statement of Accounts but is also used to produce the working papers as required by the Council's external auditors.

7.5 Within the detailed timetable there are certain key dates that represent those key milestones that we need to focus on achieving.

7.6 The following table shows those key tasks and dates for the 2022/23 closedown process.

Item	**Key Dates 2022/23**
Planning and Preparation	01/01/2023 – 31/01/2023
Balance Sheet Review	27/01/2023
External Audit Liaison Meeting	24/02/2023
Report to Governance and Audit Committee: Closedown Matters	14/03/2023
Interim Audit	20/03/2022
Close Period 12	03/04/2023
Accruals/Prepayments Input to System	07/04/2023
All Accounts Closed	01/05/2023
Balance Sheet and Comprehensive Income and Expenditure Statement Completed	01/05/2023
Narrative Report Draft	15/05/2023
Statement of Accounts Completed	22/05/2023
Draft Statement of Accounts Signed Off by Section 151 Officer	29/05/2023
Send Statement of Accounts to Auditors	31/05/2023
Outturn Position Report to Corporate Policy and Resources Committee	08/06/2023
Audit of Accounts	10/07/2023
Whole of Government Accounts (subject to date of issue)	31/07/2023
Governance and Audit Committee Approval of Statement of Accounts and Annual Governance Statement	26/09/2023
Publish Statement of Accounts on Website and Issue Public Notice	27/09/2023

8. Accounting Changes 2022/23

8.1 There are no major accounting changes that will affect the 2022/23 Statement of Accounts.