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# **Statement of Accounts and External Audit Update**

Audit & Risk Committee

Date of Meeting: 22<sup>nd</sup> November 2022

Lead director: Director of Finance

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## Useful information

- Ward(s) affected: All
- Report author: Ben Matthews, Chief Accountant
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- Report version number: 1.0

### 1. Purpose of Report and Summary

- 1.1. To provide a further update on the progress of the statement of accounts and external audit for 2020/21 and 2021/22.

### 2. Recommendations

- 2.1. The Committee is asked to note the contents of the report and the update provided on the progress of the external audit of the statement of accounts.

### 3. Report

#### Statement of Accounts 2020/21

- 3.1. As Members may recall, the 2020/21 statement of accounts was approved at your meeting in September 2021. However, as reported subsequently to the Committee, a national accounting issue concerning the valuation of infrastructure assets continues to delay the closure of the audit.
- 3.2. Infrastructure assets are 'inalienable assets', expenditure on which is only recoverable by continued use of the asset created and there is no prospect of sale or alternative use. They are largely assets with very long lives and the main example is highways.
- 3.3. The infrastructure accounting issue relates to the valuation of infrastructure assets in our accounts, in particular how expenditure is accounted for when existing infrastructure is improved. There has been a CIPFA consultation and more recently a consultation from Government proposing legislation to resolve the matter, which it is hoped could come into effect by the end of this year. However, until a national resolution is confirmed the external auditor cannot close the audit of our accounts (or those of other affected authorities).
- 3.4. Resolution of the issue will not affect the Council's financial position; this issue is only about the valuation of infrastructure assets on the balance sheet.
- 3.5. The outstanding Whole of Government Accounts work reported to the Committee's September meeting has been completed, following the receipt of national guidance.

#### Statement of Accounts 2021/22

- 3.6. The Committee received the draft 2021/22 accounts at your July meeting. At that time, the external audit was underway. An external audit progress update was provided in September and an Interim External Audit Findings Report can be found at Appendix A of this report.

3.7. The issuing of an external audit opinion for 2021/22 will however be delayed due to the following reasons:

3.7.1. The national accounting issue involving infrastructure assets as set out above. Officers have been working on this whilst awaiting the national resolution and have already identified that the accounts do not currently reflect the de-recognition of previous assets; and therefore do not include the subsequent expenditure on the balance sheet for the replacement of these assets. This results in a lower value for infrastructure assets on the balance sheet than would otherwise be the case. However, until a national resolution is reached, the auditor is not able to conclude what further work will be necessary to satisfy themselves over the compliance of the Council's infrastructure assets valuation. As noted above, there is no impact on the Council's financial position.

3.7.2. The valuation of specialised assets. These assets are not available to purchase in the open market, for example schools, leisure centres and museums. They are valued on the 'depreciated replacement cost' basis. However, it has come to light that within this, a particular requirement for the valuation of council assets nationally has not been applied, which results in an understated valuation on the balance sheet. The valuations from previous years will require amendment.

3.8. During the external audit, some amendments to the draft financial statements have been identified, which are reported in the External Auditor's interim draft audit findings report at Appendix A. These are mainly technical and presentational matters, which do not result in a change in the overall level of balances available to the Council to finance its ongoing operations.

3.9. The changes confirmed so far and impacting balances on the main statements are:

3.9.1. The overstated value of two assets, which will impact the Comprehensive Income and Expenditure Statement and the Balance Sheet.

3.9.2. An updated pension liability in relation to more recent asset valuations provided by the Actuary. This correction will impact the Comprehensive Income and Expenditure Statement and the Balance Sheet.

3.10 As previously reported, the audit work on Value for Money has been delayed, although is now underway.

## **4. Financial, legal, equalities, climate emergency and other implication**

### **4.1. Financial implications**

The report provides an update on the progress with the external audit of the Council's accounts. The changes identified during the audit do not affect the overall level of balances available to the Council to finance its ongoing operations.

Ben Matthews, Chief Accountant, ext. 37 4840

#### 4.2. Legal implications

The Council is unable to meet the statutory deadline for producing an audited statement of accounts. However, this will not be unique to this Council, with other authorities likely to be in the same position, considering the delayed national resolution of the infrastructure assets accounting issue.

Kamal Adata, City Barrister & Head of Standards, ext. 37 1401

#### 4.3. Equalities implications

N/A

#### 4.4. Climate Emergency implications

N/A

#### 4.5. Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

N/A

### 5. Other Implications

<u>OTHER IMPLICATIONS</u>	<u>YES/NO</u>	<u>PARAGRAPH REFERRED</u>
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights / People on low incomes	No	
Corporate Parenting	No	
Health Inequalities Impact	No	

### 6. Background papers:

Agendas and Minutes of the Audit & Risk Committee meetings

### 7. Summary of Appendices:

Appendix A – Interim External Audit Findings Report

### 8. Consultations

9. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)?

10. Is this a “key decision”? If so, why? No