

Cherwell District Council

Accounts Audit and Risk Committee

27 September 2023

Statement of Accounts 2021/22

Report of the Assistant Director of Finance

This report is public

Purpose of report

To ask Members to note the draft statement of accounts for 2021/22 and the draft Audit Results Report of the external auditors. The technical changes to the statement of accounts between the draft published in July 2022 and this version are detailed in the report. The audit is not yet complete, but no further material changes to the statement are anticipated. A draft of the Letter of Representation has also been provided for the Committee to note.

1.0 Recommendations

The meeting is recommended to:

- 1.1 Note the revised Comprehensive Income and Expenditure Statement (CIES) at Appendix 1 and Balance Sheet at Appendix 2 in comparison to the published Draft Statement of Accounts 2021/22 (Appendix 3) and the documents be endorsed along with necessary changes to supporting statements and notes.
- 1.2 Agree that, once the final audit opinion is received, the Assistant Director Finance (S151 Officer), in consultation with the Chair of the Accounts, Audit and Risk Committee (or Vice Chair in case the Chairman is unavailable), be authorised to make any further material changes to the accounts agreed with the auditors and sign the accounts. Any further changes will be brought to the Committee's attention.
- 1.3 Agree that the Assistant Director of Finance, in consultation with the Chair of the Committee (or Deputy Chair in their absence), can make any further changes to the letters of representation agreed with the auditors that may arise during completion of the audit. Any further changes will be brought to the Committee's attention.

2.0 Introduction

- 2.1 The Statement of Accounts has been prepared in accordance with all relevant statutory reporting requirements.

- 2.2 The statutory timescale required that the Statement of Accounts were approved by the S151 Officer and received by the Councils External Auditor, Ernst & Young (EY) by 31 July 2022. Following this the accounts are being audited in advance of the External Auditor, Ernst & Young setting out their opinion on the accounts and reported to this committee.
- 2.3 The Letter of Representation is an important part of the audit process whereby the Council, via the Section 151 Officer provides representations around the operation of the Council that allows and helps the auditors to form their opinion as to whether the financial statements give a true and fair view. A draft of the letter for 2021/22 has been provided by the auditors and is found at Appendix 4.

3.0 Report Details

- 3.1 In preparation for the 2022/23 year-end, Council officers have determined that six material items have been incorrectly presented within the CIES and Balance Sheet. As the audit of 2021/22 has not been finalised, the Council has the opportunity to correct the presentation of the 2021/22 CIES and Balance Sheet, including the restatement of 2020/21's CIES and Balance Sheet where appropriate. There are several amendments, which officers have agreed with the auditors, which impact only on the disclosure notes but which do not impact on the Balance Sheet or CIES; therefore, these have not been detailed in this report.
- 3.2 The first correction relates to corrected valuations of six Property, Plant & Equipment assets of £3.403m. The majority of this adjustment relates to Banbury Bus Station which has been valued incorrectly since 2019/20. The difference in valuations required to correct amounts to £4.2m. As this was also a material correction in 2020/21, a prior year adjustment of £4.068 has been made.
- 3.3 Kingsmere Community Centre was undervalued by approximately £0.4m due to an incorrect floor area being used for the valuation. This has been corrected in 2021/22 but does not require a prior year adjustment.

The remaining adjustment relates to 4 council car parks. The valuer, in conducting their 2021/22 valuations, made a spreadsheet error in calculating the average income achieved at these car parks, which resulted in an undervaluation of £0.4m. The spreadsheet was correct in 2020/21's valuations, therefore no prior year-adjustment is required. These corrections impact the Balance Sheet, but there are also associated adjustments to the CIES.

- 3.4 The second relates to the reclassification of some Investment Property assets as Property, Plant & Equipment. A review of Investment Properties was undertaken to ensure that the classification was consistent with the CIPFA accounting code. According to the code, Investment Properties are those held *solely* for investment gains.
- 3.5 Officers demonstrated to audit that many of the assets classified as Investment Properties were in fact acquired and held for regeneration purposes, e.g. Castle Quay, Orchard Way Shops, Antelope Garage. The correction has not impacted on the valuations as the Council's valuers have confirmed that the basis of valuation applied when they were classified as Investment Properties is still appropriate.

- 3.6 Therefore, Investment Assets in the Balance Sheet has been adjusted by £55.918m. This correction required prior year adjustments in 2020/21 (£39.781m) and 2019/20 (£54.989m). The recording of income and revaluation adjustments for Investment Property and Property, Plant & Equipment impact different areas of the CIES; therefore, the CIES has also been adjusted in 2021/22 and 2020/21.
- 3.7 The third relates to Covid-19 Additional Relief Fund (CARF). An amount of £3.988m was adjusted between short term creditors and short-term debtors. Before publishing the draft accounts, it was noted and corrected that the £16.6m due back to the government was included in debtors rather than creditors. However, a smaller amount representing a reduction in the amount due back was missed. This adjustment impacts only the Balance Sheet.
- 3.8 The fourth relates to the cash balance at 31 March 2022. Due to the timing of payments the council recorded an overdraft position on one of its three accounts. While this is an operationally common position accepted by the bank so long as the balance of all our accounts is overall in credit, the accounting for the account in overdraft must be recorded as a liability. Therefore, an adjustment of £1.011m has been made in the Balance Sheet between Current Assets and Current Liabilities. There were no accounts in overdraft at the end of the previous year, therefore a prior year adjustment is not required.
- 3.9 The fifth relates to the valuation of the Council's Pension Fund. Actuaries valued the Council's share of the Oxfordshire Pension Fund in May 2022. However, the value of the Oxfordshire Pension Fund was revised following its triennial review. The actuaries recalculated the value of the Council's share of the fund, the outcome of which was an increased liability of £5.330m, requiring a correction between the 2021/22 Pension Fund Liability and Unusable Reserves in the Balance Sheet and an adjustment to Other Comprehensive (Income) and Expenditure in the CIES.
- 3.10 The sixth material item relates to Minimum Revenue Provision (MRP). In December 2022 Officers commissioned a review of its MRP provision by Link, the Council's Treasury Management Advisors. The review highlighted that the MRP charges made to date had no been strictly in line with the published policy. The policy states that MRP should be charged on a straight-line basis using the useful life of the asset and over 20 years for equity, whereas the actual was charged using straight line over 50 years for all assets. The difference is in timing of the charge, not the total amount of the charge.
- 3.11 Amending the calculation to be fully in line with the policy results in a material shortfall in the MRP the council has charged to date, which it is prudent to correct in the current and preceding financial years as prior year adjustments. The resultant increase in 2019/20 is £3.847m (representing the years up to and including 2019/20), £1.496m for 2020/21 and £2.532m for 2021/22.
- 3.12 Appendices 1 and 2 to this report provide revised versions of the CIES and Balance Sheet which incorporate the changes above to the published draft 2021/22 Statement of Accounts (Appendix 3). There will also be corresponding changes required to the Movement in Reserves and Cash Flow Statements, Expenditure and Funding Analysis and some supporting notes in the final Statement of Accounts.

4.0 Conclusion and Reasons for Recommendations

- 4.1 The external audit has not yet reached its conclusion and so the CIES and Balance Sheet and associated changes in the final statement of accounts can be approved by the Committee and authority delegated to the Assistant Director of Finance and the Chair of the Accounts, Audit and Risk Committee to sign the Letter or Representation.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

- 6.1 None.

7.0 Implications

Financial and Resource Implications

- 7.1 There are no financial implications arising from the revisions described in section 3 of the report with the exception of the adjustment described in sections 3.10 – 3.11. MRP is not a cash transaction, but the amendment to the charge required impacted on the CIES and was funded from earmarked reserves. The adjustment did not impact the total amount of MRP that will be charged but it did alter the charging profile, bringing forward MRP charges which would have been made in later years without the change to the calculation.

Comments checked by:

Michael Furness, Assistant Director of Finance, 01295 221845,
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Legal Implications

- 7.2 There are no legal implications arising directly from this report.

Comments checked by:

Shahin Ismael, Interim Head of Legal Services, 01295 221808,
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Risk Implications

- 7.3 There are no risk management implications arising directly from this report.

Comments checked by:

Celia Prado-Teeling, Performance Team Leader, 01295 221556, Celia.Prado-Teeling@cherwell-dc.gov.uk

Equalities and Inclusion

7.4 There are no equalities nor inclusion implications arising directly from this report.

Comments checked by:

Celia Prado-Teeling, Performance Team Leader, 01295 221556,

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8.0 Decision Information

Key Decision N/A

Financial Threshold Met: N/A

Community Impact Threshold Met: N/A

Wards Affected

All

Links to Corporate Plan and Policy Framework

All Corporate Plan themes

Lead Councillor

Councillor Adam Nell – Portfolio Holder for Finance

Document Information

Appendix number and title

- Appendix 1 – Comprehensive Income and Expenditure Statement - Revised
- Appendix 2 – Balance Sheet – Revised
- Appendix 3 – Draft Statement of Accounts 2021/22
- Appendix 4 – Draft Letter or Representation 2021/22

Background papers

None

Reference Documents

Draft Statement of Accounts 2021/22

<https://www.cherwell.gov.uk/downloads/download/346/statement-of-accounts-and-annual-audit>

Report Author and contact details

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