

North Yorkshire Council

Audit Committee

26 June 2023

Draft Statement of Accounts 2022/23

Report of the Corporate Director Resources

1.0 PURPOSE OF REPORT

- 1.1 To consider a draft Statement of Final Accounts (SOFA) for 2022/23 for legacy councils in advance of:
- (a) these accounts being audited by various Audit Teams between June and November 2023 and
 - (b) being re-submitted to this Committee for formal approval on 27 November 2023 after the external audits have been completed.
- 1.2 To approve a Corporate Governance Working Group and its membership in order to provide further overview of the NYCC SOFA for 2022/23 and supporting documentation.

2.0 SUMMARY

- 2.1. The 2022/23 Draft Statement of Accounts for all legacy councils are in the process of being published. This report sets out the next steps and timeline for the audit, certification and publication of the final audited accounts.

3.0 BACKGROUND

- 3.1. The Accounts and Audit Regulations set out the requirements and timelines for Member approval of Local Authority Accounts and one of the Terms of Reference for this Committee is to approve the Annual Statement of Accounts (SOFA).
- 3.2. The Accounts and Audit Regulations require the SOFA to be certified by the Section 151 Officer (Corporate Director Resources) by 31 May and approved by Members (the Audit Committee) in advance of the certification and publication of the Accounts by 30 September.
- 3.3. At this stage, there is no requirement for Member approval of a draft SOFA in advance of consideration and review by External Audit. The SOFA documents are being circulated to the Audit Committee for information and review/comment only, not formal approval.

4.0 DRAFT STATEMENT OF ACCOUNTS 2022/23

- 4.1. Draft 2022/23 accounts were published by 31 May 2023 for number of the legacy councils. Unfortunately, due to additional pressures resulting from LGR, several draft accounts were published late and three remain outstanding. The latest position for each council is as follows:

- Hambleton District Council – Published 31 May 2023
- Ryedale District Council – Published 31 May 2023
- Selby District Council – Published 31 May 2023
- North Yorkshire County Council – Published 12 June 2023
- Richmondshire District Council – Published w/e 16 June 2023
- Scarborough Borough Council – Published w/e 16 June 2023
- Craven District Council – Not yet published, expected 30 June 2023
- Harrogate Borough Council – Not yet published, expected 30 June 2023

- 4.2. The published draft 2022/23 SOFA documents, certified by the Corporate Director Resources, are attached as separate booklets circulated with the agenda.
- 4.3. The format and content of the SOFA must comply with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2022/23. The Code prescribes the accounting treatment and disclosures for all transactions within local authority accounts.
- 4.4. A summary sheet giving a brief explanation of the various statements included in the SOFA is attached as **Appendix A**.

Revenue and Capital Outturn for 2022/23

- 4.5. Revenue Budget and Capital 2022/23 outturn reports for all councils were considered by the Executive on 20 June 2023. The expenditure and funding details reported in the outturn position form the basis of the information reflected in each SOFA.
- 4.6. However, council budget and financial reporting arrangements are designed to fit the organisational structure of each Council and are different to the statutory year-end requirements reflected in the SOFA. Therefore, the management accounts have been reworked to fit the formal requirements of the Code. Although the presentation of the figures in the SOFA is very different, the resulting changes do not affect the overall net expenditure to be funded from Central Government Grant, Business Rates and Council Tax or the levels of working balances.
- 4.7. The main differences between Council management accounts and the published statutory accounts are set out at **Appendix B**.

Accounting Policies 2022/23

- 4.8. There were no key changes to the Code of Practice that impact on the Councils 2022/23 Accounting Policies.

Audit and Certification of Accounts

- 4.9. The Accounts and Audit Regulations require that the External Auditor for each legacy Council formally signs off the 2022/23 accounts by 30 September 2023. However, External Audit Teams have flagged potential capacity issues which may limit their ability to finalise audits prior to 30 September. As a result, it is anticipated that audit reports are likely to be submitted to Audit Committee meetings scheduled between September and December. As a result, legacy Council audits are expected to be undertaken at various points between June and November 2023.
- 4.10. Following the conclusion of the audit, the Corporate Director Resources must re-certify the Final version of each SOFA before it is approved by the Audit Committee.

- 4.11. Any significant changes reflected in the Final SOFAs compared with the Draft versions, resulting from the audits, will be reported to Members.
- 4.12. On completion of the external audits a report from each Auditor will be submitted to the meeting of this Committee. Following consideration of the Auditor's reports, the Committee will be asked to consider and approve each SOFA with the Chairman being asked to sign and date the Accounts prior to being formally signed off by the External Auditors.
- 4.13. The Auditors' conclusion from their audit will also be reported through the Annual Audit Letter. Letters will be submitted to a future meeting of this Committee and the Executive.
- 4.14. The approach taken in previous years for NYCC has been to create a working group to support the Audit Committee in reviewing the SOFA and associated governance documents. The proposal for 2022/23 accounts is to continue with the same approach for NYCC due to materiality levels and in order to finalise work in relation to the Annual Governance Statement. While the legacy District and Borough accounts will not be considered by the working group, any material changes reflected in the final accounts will be highlighted to Audit Committee prior to sign off. It would be intended that a report from the working group is considered in advance of the NYCC SOFA at the November meeting of the Committee. The Committee are asked to identify who they would wish to be involved in this working group.

Annual Governance Statement

- 4.15. The NYCC draft SOFA also includes the draft Annual Governance Statement (AGS). Following further consideration by the appointed Corporate Governance Working Group and the full Committee at this meeting, a final version of the AGS will be submitted as part of the final SOFA.

Draft Statement of Accounts prior to 2022/23

- 4.16. Prior year final accounts have not been published for several of the legacy Councils due to historic capacity and technical issues. As with the draft 2022/23 Accounts, once the audits of the accounts are finalised, each auditor will submit a report to a future Audit Committee meeting. Following consideration of the Auditor's reports, the Committee will be asked to consider and approve each prior year SOFA. The latest position for historic legacy accounts is shown in **Appendix C**.

5.0 ALTERNATIVE OPTIONS CONSIDERED

- 5.1 No alternative options were considered.

6.0 FINANCIAL IMPLICATIONS

- 6.1 There are no specific financial implications.

7.0 LEGAL IMPLICATIONS

- 7.1 There are no specific legal implications.

8.0 EQUALITIES IMPLICATIONS

- 8.1 There are no equalities implications.

9.0 CLIMATE CHANGE IMPLICATIONS

9.1 There are no climate change implications.

10.0 REASONS FOR RECOMMENDATIONS

10.1 Member approval is required to sign off audited SOFA in order to fulfil the obligations of those charged with the council's governance (i.e. the Audit Committee).

11.0 RECOMMENDATIONS

i) That Members consider the draft Statement of Final Accounts for 2022/23 in advance of the accounts being audited and resubmitted to the Audit Committee on 27 November 2023 for formal approval.

ii) That Members approve creation and identify members of a working group as set out in **paragraph 4.14**.

APPENDICES:

Appendix A – Statement of Accounts: Brief Explanation of Contents

Appendix B – Main Differences Between the Management Accounts and the Published Statutory Accounts

Appendix C – Update on Legacy Council 2022/23 Draft Accounts Publication & Audit of Prior Year Accounts

BACKGROUND DOCUMENTS:

CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022/23

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Corporate Director – Resources
County Hall
Northallerton
June 2023

Report Author – John Raine, Head of Technical Finance
Presenter of Report – John Raine, Head of Technical Finance

Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions.

STATEMENT OF FINAL ACCOUNTS
Brief Explanation of Contents

(a) Narrative Statement

The purpose of this statement is to act as a guide to the most significant matters impacting on the Council's finances. It gives provides commentary on the Councils financial performance and value for money in its use of resources.

(b) Independent Auditor's Report

The report explains the auditors' responsibilities in relation to the Statement of Accounts. It also expresses an opinion on the Accounts and shows how this opinion was reached. The report also gives a value for money opinion in terms of the arrangements for securing economy, efficiency and effectiveness, (currently not included in draft SOFA).

(c) Statement of Responsibilities for the Statement of Accounts

This statement outlines the Council's responsibilities for the Accounts under local government legislation and any other requirements. It also details the legal and professional responsibility for the Accounts of the Corporate Director – Finance and Central Services (i.e. Section 151 officer).

(d) Statement of Accounting Policies

This statement explains the principles, bases, conventions and rules applied by the Council in preparing the Statement of Accounts.

(e) Expenditure and Funding Analysis

This statement demonstrates how the funding available to the Council for the year has been used in providing services in comparison with those resources consumed or earned by the Council

(f) Comprehensive Income and Expenditure Statement

This shows the Net Cost of the Services provided by the Council and how this has been financed from general government grants and local tax payers. This Statement shows the accounting cost in the year of providing services in accordance with specified accounting principles, rather than the amount to be funded from taxation.

(g) Movement in Reserves Statement

This Statement shows the movement in the different reserves held by the Council over the year. The Statement is analysed into usable reserves, those that can be applied to fund expenditure or reduce local taxation, and other unusable reserves.

(h) Balance Sheet

This is a statement of the overall financial position of the Council at the end of the year and shows the Balances and Reserves at the Council's disposal, its long term indebtedness and the fixed and net current assets employed in its operations.

(i) Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. The Statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

(j) Notes to the Core Financial Statements

These notes provide further details and explanation of the figures included in the Core Financial Statements.

(k) Group Accounts

The Council conducts some of its activities through partnerships and separate undertakings. Some of these are not directly reflected in the statements (e) – (i) above due to legal and regulatory reasons. These Group Accounts are required to present a full picture of the Council's economic activities and financial position in order to aid the primary financial statements.

(l) North Yorkshire Pension Fund Accounts

The Accounts show the income and expenditure of the North Yorkshire Pension Fund together with the financial position of the Fund on 31 March.

(m) Annual Governance Statement

This statement sets out the framework within which financial control and corporate governance is managed and reviewed by the Council and the main components of the system. It also reports on significant identified weaknesses and the actions undertaken to rectify these.

MAIN DIFFERENCES BETWEEN THE MANAGEMENT ACCOUNTS AND THE PUBLISHED STATUTORY ACCOUNTS

1.0 CAPITAL CHARGES

In the SOFA, the Council is required to adopt CIPFA's Capital Accounting Regulations which means that each service has to reflect a depreciation charge for the assets they use (land, building, plant and machinery etc.) Adjustments are also made for the following other types of capital charge:

- impairment of non-current (fixed) assets
- revaluation losses from the revaluation of property
- changes in the market value of Investment Properties
- amortisation of intangible assets
- revenue expenditure from capital under statute (capital expenditure that does not result in a Council asset)

These capital charges replace the minimum revenue provision (MRP) for debt repayment which is included in the management accounts, and charged against the Council's budget requirement. The MRP is therefore not charged to the Comprehensive Income and Expenditure Statement. Similarly, capital expenditure which is funded directly by the General Fund (funded by Council Tax, General Revenue Grant and Business Rates) is not charged to the Comprehensive Income and Expenditure Statement.

Capital charges are off-set by capital grants and contributions (which are used to fund expenditure on non-current (fixed assets)). These contributions are credited in full to the Comprehensive Income and Expenditure Statement in the year where the terms and conditions of these contributions have been satisfied but this treatment does not impact on the management accounts of the Council. Where the conditions of these capital grants have not been met at year-end, the grant is held in the balance sheet as 'Capital Grant Unapplied'.

2.0 TRANSFERS TO AND FROM RESERVES

Transfers into, and expenditure funded from, reserves are not considered part of the net cost of services and are therefore not reflected at all within the Income and Expenditure Statement.

3.0 EMPLOYER'S PENSION FUND CONTRIBUTIONS AND ADJUSTMENTS INVOLVING THE PENSION FUND RESERVE

Accounting for retirement benefits (IAS 19) requires that employer's contributions to pension schemes, reflected in service accounts should only consist of 'current service' costs. As the actual contributions made to the North Yorkshire Pension Fund by the Council include an element of back-funding to recover the Pension Fund deficit, the service expenditure figures reported in the SOFA have to be adjusted to reflect the current service cost as calculated by the Fund actuary.

In addition, the Comprehensive Income and Expenditure Statement also includes, as part of operating expenditure, the net impact of the notional return (Council share) of the Pension Fund assets and the increase in accrued future pension liabilities.

The required changes also reflect the inclusion of the attributable share of Pension Fund assets and liabilities in the Council's Balance Sheet. This reflects the Council's commitment

to the Pension Fund but does not mean however that legal title or obligation has passed from the trustees of the Pension Fund to the employer.

4.0 COUNCIL TAX AND BUSINESS RATES (COLLECTION FUND) ACCOUNTING

The Council's Income and Expenditure Statement includes the Authority's share of the carried forward Council Tax and Business Rates Collection Fund surpluses and deficits of each of the seven District Councils at the year end. This is in place of the estimated sums at the previous year end that have been paid over to the Council during the year and used for Budget/Council Tax setting purposes in future years.

5.0 HOLIDAY AND FLEXI PAY ACCRUAL

The Council has to charge the Income and Expenditure Statement with an estimate of accrued and untaken Annual Leave and Flexi Leave at 31 March. This figure includes a substantial figure for untaken Teacher's (and other schools-based staff) holiday pay, in relation to the days worked and taken as holiday in the Spring Term at each school. This adjustment is purely notional and does not impact on the Council's budget requirement or level or working balances (GWB).

6.0 GAINS AND LOSSES ON THE DISPOSAL ON NON-CURRENT (FIXED) ASSETS

An example of this would be where a School acquires Academy status and there is an automatic transfer of the ownership of the Land and Building of the school premises to the School's Board of Governors for nil value. Such a notional loss does not, however, impact on the day to day management accounts or level of general working balances.

7.0 OTHER DIFFERENCES

Certain other transactions such as interest earned and paid, precept payments to other bodies etc. are not considered as part of the net cost of services and are required to be shown as separate items below service expenditure totals in the Income and Expenditure account. Similarly some Government Grants and Funding sources are required to be shown as overall general funding, rather than being included in the Income and Expenditure Statement as Service income.

APPENDIX C

Update on Legacy Council 2022/23 Draft Accounts Publication & Audit of Prior Year Accounts

Council	Audit Firm	Draft Accounts Published*	Audit of Accounts Completed					
		2022/23	2021/22	2020/21	2019/20	2018/19	2017/18	2016/17
Craven	Mazars	x	x	√	√	√	√	√
Hambleton	EY	√	x	x	x	√	√	√
Harrogate	Mazars	x	x	√	√	√	√	√
NYCC	Deloitte	√	x	√	√	√	√	√
Richmondshire	EY	√	x	x	√	√	√	√
Ryedale	Grant Thornton	√	√	√	√	√	√	√
Scarborough	Mazars	√	x	x	x	x	x	x
Selby	Mazars	√	√	√	√	√	√	√

*Position estimated by Audit Committee date