

Meeting of:	Governance and Audit Committee
Date of Meeting:	Tuesday, 25 April 2023
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Preparation and Audit of the 2021/22 Statement of Accounts Review and Consideration of Lessons Learnt
Purpose of Report:	To present to those charged with governance with a review of the preparation and audit of the 2021/22 Statement of Accounts and proposals for improvements as part of the 2022/23 cycle.
Report Owner:	Report of the Director of Corporate Resources
Responsible Officer:	Matt Bowmer Head of Finance/Section 151 Officer
Elected Member and Officer Consultation:	None
Policy Framework:	The proposals in this report are in accordance with Policy Framework and Budget
<p>Executive Summary:</p> <ul style="list-style-type: none"> • The 2021/22 Statement of Accounts were completed by the 5th July 2022 and presented to Governance and Audit Committee on 11th July 2023 against a target date of 30th June. • The Audit was completed by January 2023 due to specific delays associated with the accounting for infrastructure assets, however, the delivery of the audit was impacted by resourcing issues on both sides, some of the specific issues are set out below. • Valuation of Land and Building Assets. • Loss of key experienced Accountancy personnel during 2021/22. • Volume of grant award and claims in 2021/22 accounts and associated resource requirements. • This report details some of the potential reasons for delay and considers how these issues could be mitigated for 2022/23. 	

Recommendations

1. That the review of the delivery of the 2021/22 Statement of Accounts be considered by Committee.
2. That the proposed mitigating activities for the delivery of the 2022/23 Statement of Accounts are noted.

Reasons for Recommendations

1. To ensure that the members of the Governance & Audit Committee, as those charged with governance, are aware of the issues impacting the preparation and auditing of the 2021/22 Statement of Accounts.
2. To ensure that the members of the Governance & Audit Committee, as those charged with governance, are aware of the proposed mitigations to address these issues for the preparation and auditing of the 2022/23 Statement of Accounts.

1. Background

- 1.1 The Council is responsible for the preparation of the Financial Statements that presents fairly its financial position as at 31st March 2023. The Auditor General for Wales is responsible for reporting whether, in his opinion, this is indeed the case. The audit of the 2022/23 accounts will be undertaken by the Audit Wales, as the Council's Engagement Lead, on behalf of the Appointed Auditor.
- 1.2 The Statement of Accounts for 2021/22 was prepared by the 5 July 2022 and on 11 July 2022 the unaudited copy was presented to this Committee. The audited accounts were brought to this Committee, and then Council for approval in January 2023 following some delays due to issues associated with the accounting for infrastructure assets and some delays due to resource issues on both sides.
- 1.3 The statutory deadlines for 2021/22 were delayed to 31st August 2022 for Draft Statement of Accounts and 30th November 2022 for the Audited Statement of Accounts to reflect the backlogs associated with Covid 19 Pandemic on finance teams. The Audit deadline was further extended to reflect the delays associated with accounting for infrastructure assets. The Vale of Glamorgan accountancy team targeted delivery of the accounts by 30th June and missed this deadline by 5 days to allow the quality assurance process to be completed to a satisfactory level.
- 1.4 The Vale of Glamorgan was not an outlier in terms of delivery of the draft 2021/22 Statement of Accounts a significant proportion of Welsh Authorities delivered their accounts after the 31st May 2022.
- 1.5 A number of issues associated with the preparation of the accounts were reported to Governance and Audit Committee alongside the draft accounts on 11th July 2023, and as part of that report a commitment was made to bring a

lessons learnt review to a future Governance and Audit Committee which are reflected with proposed mitigations in Appendix 1 to this report.

2. Key Issues for Consideration

- 2.1** The Council's Statement of Accounts is a technical document, which relies on information received from many Directorates and capacity in order to meet the challenging timescales for preparation.
- 2.2** The preparation of the accounts relies on specific technical expertise which contributes towards material elements of the accounts such as the valuation of the Council's assets such as land and buildings and council dwellings and the actuarial review of the Council's pension assets and liabilities.
- 2.3** Some of the key issues encountered by the Finance team in preparation of the 2021/22 accounts are set out below and are included in more detail in Appendix 1.
- 2.4** Valuation of Assets - In preparation for the 2021/22 the Council commissioned the valuation of the Council's housing stock and new build housing stock and following discussion with the Council's auditor a decision was taken to bring forward some of the Council's land and building valuations. However, following further discussion with Audit Wales a decision was taken to extend the valuation to all Council assets, due to resource constraints this valuation was scheduled in for May 2023 which lead to very little contingency on the preparation of the Council's asset register and associated impact on the Balance Sheet.
- 2.5** Resource Constraints – In February and March 2022 two experienced members of the Accountancy team left the Authority, one of the posts was filled internally and an additional post was held as a vacant post, this meant that there was reduced capacity in the team and reduced experience regarding the preparation of the Financial Statements which reduced the ability of team members to prepare and provide quality assurance on the Statements and associated notes included in the accounts.
- 2.6** Volume of Grants – During 2021/22 a particularly high number of grants were awarded by Welsh Government to reflect the ongoing Covid 19 Pandemic, the emerging Cost of Living crisis. The majority of grants awarded were hypothecated and awarded late in the financial year requiring extensive accounting adjustments and reallocating of expenditure to allow displacement of grants where required. A significant volume of resource was also required to complete the associated grant claims.
- 2.7** As part of the preparation of this report a meeting was held with the Audit Wales team to discuss the lessons learnt from the Audit of the 2021/22 accounts, a snapshot of the issues identified are set out below.
- 2.8** Reduced Team Capacity – The reduced capacity in Accountancy impacted the speed with which queries were responded to by the Vale of Glamorgan team. Limited Audit Wales resource meant that sometimes the delay on responding to queries required issues to be handled by numerous members of the Audit team

which complicated the resolution of issues. On a similar point in many cases there was only one member of the Vale of Glamorgan team able to respond to issues raised and therefore responses could be delayed.

- 2.9 Use of Email – It was felt that the use of email to manage samples and audit issues led to some repetition of requests and confusion regarding what was outstanding. The process to compile responses across numerous emails could therefore be resource intensive and the team did not have visibility on the outstanding samples and issues. Objective Connect was used to a limited extent however because in previous years this site had to be regularly cleared down its use was limited.
- 2.10 Virtual working – following discussion it was felt that whilst virtual teams meetings were largely an effective method of information sharing and communication that in person meetings should be considered for the resolution of some issues.
- 2.11 To assist with the mitigation of some of these issues Audit Wales suggested the use of the tool Inflo to manage working papers, samples and issues and having attended a demonstration of the tool the team intend to utilise the system as part of the 2022/23 Audit. This approach should give better visibility to outstanding working papers, samples and issues.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 3.1 The Council's budget and therefore its expenditure is incurred in order to achieve its corporate priorities as set out in the Corporate Plan 2020-2025 through the 4 well-being outcomes.

4. Climate Change and Nature Implications

- 4.1 None as a direct consequence of this report

5. Resources and Legal Considerations

Financial

- 5.1 The preparation of and audit of the Statement of Accounts is funded from existing budgets. The cost of the External Audit of accounts is estimated as part of the Annual Audit Plan which is reported on an annual basis to the Governance and Audit Committee.

Employment

- 5.2 None as a direct consequence of this report.

Legal (Including Equalities)

- 5.3** The Statement of Accounts is prepared in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2014 (as amended).

6. Background Papers

None



Vale of Glamorgan Council
Preparation and Audit of Accounts
Review and Lessons Learnt– 2021/22

Review of the Preparation of the 2021/22 Accounts

Issues Identified and Potential Mitigations Proposed

1. Valuation of Assets

In preparation for the 2021/22 the Council had commissioned a valuation of the Council's housing stock and new build housing stock and following discussion with the Council's Auditor a decision was taken to bring forward some of the Council's land and building valuations. However, during April 2022 following further discussion with Audit Wales a decision was taken to extend the valuation to all Council assets, due to resource constraints this valuation was scheduled in for May 2023 which led to very little contingency on the preparation of the Council's asset register and associated impact on the Balance Sheet.

The delay associated with updating the Council's asset register was further exacerbated by technical issues in uploading the amended valuations via spreadsheet into the Asset Management system and delays in the service provider resolving these issues requiring manual entry of the updated valuations by the Accountancy team.

Mitigation for 2022/23

- Valuation of Housing Stock is not required for 2022/23 and a desktop review has been commissioned.
- Valuation of the Council's Land and Building Assets has been restricted to assets valued on a depreciated replacement cost basis which is a far lower volume of valuation updates required.

2. Resource Constraints

In February and March 2022 two experienced members of the Accountancy team left the Authority, one of the posts was filled internally and an additional post was held as a vacant post, this meant that there was reduced capacity in the team and reduced experience regarding the preparation of the Financial Statements which affected the ability of team members to prepare and provide quality assurance on the Statements and associated notes included in the accounts.

Within the wider organisation vacant posts and additional workload pressures associated with workstreams such as the cost of living payments impacted on the provision of supporting information required as part of the closure of accounts such as reconciliation data, closure of jobs in the trading accounts and provision of items such as professional fees.

Mitigation for 2022/23

Since this period the team has progressed some further backfilling of roles enabling some additional capacity and experience in the team to be released to support the delivery of the Statements and associated notes.

However, there are some additional risks in this area as one of these posts has been cut within the team as part of required budget savings. In addition, capacity within the team has been impacted by the implementation of the Oracle Fusion and an upgrade of the Council's Cash Management system in the last month.

The wider organisation continues to experience long term vacant posts across some key strategic areas that provide data as part of the preparation of the accounts.

3. Volume of Grants

During 2021/22 a particularly high number of grants was awarded by Welsh Government to reflect the ongoing Covid 19 Pandemic and the emerging Cost of Living crisis. The majority of grants awarded were hypothecated and awarded late in the financial year requiring extensive accounting adjustments and reallocating of expenditure to allow displacement of grants where required. A significant volume of resource was also required to complete the associated grant claims. For instance, the Capital accounts for the Council in 2021/22 which had a total spend of approximately £66M in 2021/22 included contributions by 50 separate grant streams which placed a significant accounting burden on the single capital accountant that was in post at the time. There was also a large number of additional revenue grants awarded late in the financial scheme and payment schemes such as the Discretionary Cost of Living scheme.

Mitigation for 2022/23

There are fewer grants in 2022/23 than in 2021/22 and whilst there has been some additional funding made available in the last quarter of the year it has been significantly less than in 2021/22.

The Accountancy team have moved to backfill the gaps in the team including the use of some agency staff to cover vacancies, the team have also recruited an additional Graduate Trainee to the team to assist in relieving workload pressures as well as supporting workforce planning for the team.

Review of the Audit of the 2021/22 Accounts

4. Reduced Team Capacity

The reduced capacity in Accountancy impacted the speed with which queries were responded to by the Vale of Glamorgan team. Limited Audit Wales resource meant that sometimes the delay in responding to queries required issues to be handled by numerous members of the Audit team which complicated the resolution of issues. On a similar point in many cases there was only one member of the Vale of Glamorgan team able to respond to issues raised and therefore responses could be extremely delayed.

Mitigation for 2022/23

- As set out above the Accountancy team have moved to backfill the team including the use of some agency staff to cover vacancies, the team have also recruited an additional Graduate Trainee to the team to assist in relieving workload pressures as well as supporting workforce planning for the team.
- As part of these backfilling arrangements the Technical Finance Support Manager post will take on responsibility for the capital accounting elements of the Statement of Accounts with support from the Operational Manager for Accountancy this enables a greater ability within the team to review the accounts for quality assurance but also respond to capital specific audit queries.
- It is intended that the proposed use of Inflo to manage audit samples and queries will also allow a greater number of the accountancy team to respond to queries maximising the speed of responses.

5. Use of Email

It was felt that the use of email to manage samples and audit issues led to some repetition of requests and confusion regarding what was outstanding. The process to compile responses across numerous emails could therefore be resource intensive and the team did not have visibility on the outstanding samples and issues. Objective Connect was used to a limited extent however, because in previous years this site had to be regularly cleared down its use was limited.

Mitigation 2022/23

The intended use of Inflo in 2022/23 to manage audit working papers, issues and samples should assist with the organisation and routing of sample requests and working papers as well as tracking outstanding items and issue resolution.

6. Virtual working

Following discussion it was felt that whilst virtual teams meetings were largely an effective method of information sharing and communication that in person meetings should be considered for the resolution of some issues.

Mitigation 2022/23

Consider the use of in person meetings as part of the Audit of the 2022/23 accounts to resolve issues that are particularly complex in nature or where the sight of specific system entries may be of use if the issue cannot be resolved via a Teams meeting.