

## **Audit Committee**

**28 November 2022**

**Statement of Accounts for the year  
ended 31 March 2022**

**Ordinary Decision**



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## **Report of Paul Darby, Corporate Director of Resources**

### **Electoral division(s) affected:**

Countywide

### **Purpose of the Report**

- 1 To present the council's statement of accounts for the financial year ended 31 March 2022 and seek delegated authority for the Responsible Finance Officer (the Corporate Director of Resources) to approve the accounts upon resolution and conclusion of the national infrastructure assets technical accounting issue and Whole of Government Accounts instruction.

### **Executive Summary**

- 2 In accordance with statutory deadlines, the draft (unaudited) statement of accounts for Durham County Council and its Pension Fund for the financial year ended 31 March 2022 was authorised by the responsible financial officer on 20 June 2022 and published on the council's website on 23 June 2022.
- 3 The unaudited accounts were presented to Members of the Audit Committee on 1 July 2022.
- 4 The approval process sets out a target date rather than a statutory deadline which identifies that on or before 30 November 2022, approval needs to be given to the statement of accounts by resolution of the council's Audit Committee. This approval takes account of the views of the external auditor.
- 5 Where the external audit opinion has not been received by the 30 November, a notice publication is required as soon as practicably possible stating that the statement of accounts has not been issued,

providing reasons why this has not been possible. The statement of accounts must then be published as soon as reasonably practicable after the receipt of the report of the auditor's findings.

- 6 Members will recall from the 30 September Audit Committee meeting, that a technical accounting was issue highlighted by CIPFA which could potentially affect the approval dates for local authorities (principally highways authorities) nationally in relation to infrastructure assets.
- 7 This issue remains unresolved, with CIPFA Local Authority Accounting Code Board (CIPFA LASAAC) currently consulting with local authorities and auditors on proposals to resolve this matter. Resolution confirmation is expected in early 2023.
- 8 National Audit Office audit requirements and group instructions for the Whole of Government Accounts returns (WGA) are also awaited at the date of writing this report.
- 9 The external auditor (Mazars LLP) has reviewed the draft statements and identified a number of amendments, which have been included in the statement of accounts and referenced in the Audit Completion Reports presented today.
- 10 The Audit Completion Report identifies that the external auditors work is substantially complete and there are no matters, currently which would require modification of the audit opinion, however full audit opinion and certification remains outstanding as a result of infrastructure assets and WGA resolution requirements remaining unresolved.
- 11 The `Delay in issuing the Auditor Opinion` notice will be published on the council's website on 28 November 2022.
- 12 Although resolution to the accounting treatment for Infrastructure Asset is still awaited, it is expected, at this stage, that minimal change to the statement of accounts will be required. The potential change and alternative format of the accounts are shown within paragraph 36 of the report.
- 13 Upon consideration of these changes, Audit Committee members are requested to agree delegated authority for the approval of the Accounts to be undertaken by the Corporate Director of Resources (and Responsible Finance Officer) upon resolution and receipt of external audit opinion.

- 14 Audit completion certification will be issued following receipt of the final version of the authorised accounts, Whole of Government Accounts and Value for Money conclusion

### **Recommendation**

- 15 It is recommended that Members of the Audit Committee approve the updated draft statement of accounts for the council, for the financial year ended 31 March 2022 including the pension fund financial statements subject to the proposed changes noted in paragraph 36 in relation to infrastructure assets.
- 16 Members are also recommended to approve delegated authority for the approval of the Accounts to be undertaken by the Corporate Director of Resources (and Responsible Finance Officer) upon resolution of Infrastructure Assets reporting requirements expected in early 2023 (subject to the amendments being in line with those set out in the report).

## **Background**

- 17 The Accounts and Audit (Amendment) Regulations 2022, which stipulate a two stage approval process for the statement of accounts, have again extended the statutory audit deadlines for 2021/22 for local authorities. The first statutory deadline requires that the responsible financial officer, by no later than 31 July, should sign and certify that the statement of accounts presents a true and fair view of:
- (a) the financial position of the council for the year to 31 March previous, and
  - (b) its expenditure and income for the year to 31 March previous,
- subject to the views of the external auditor.
- 18 The second stage approval process considers a target date rather than a statutory deadline, which identifies that on or before 30 November 2022, approval needs to be given to the statement of accounts by resolution of the council's Audit Committee. This approval takes account of the views of the external auditors. Once approved, the statement of accounts must be formally published on the council's website.
- 19 The first stage was completed on 20 June 2022 and the draft accounts were presented to Members of the Audit Committee on 1 July 2022.
- 20 The external auditor has substantially completed the audit of the statement of accounts. The Audit Completion Reports are to be presented by Mazars LLP to the Committee today.
- 21 During the audit, working in collaboration with the auditor, a number of amendments were identified which have been included in the updated statement of accounts and the Audit Completion Reports presented today.

## **Statement of Accounts**

- 22 The statement of accounts for the financial year 2021/22 has been prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the 'Accounts and Audit (England) Regulations 2015, the Accounts and Audit (Amendment) Regulations 2022 and the 'Code of Practice on Local Authority

Accounting 2021/22 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

- 23 The Code is based on approved accounting standards in England and Wales and constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The council is therefore legally required to follow this code of practice. Explanatory notes are included in the document to assist in the interpretation of the accounts which are unavoidably technical and complex.
- 24 During the audit review of the draft statement of accounts, a number of 'misstatements' were identified which have since been amended. These are listed in Section 6 of the Audit Completion Report.
- 25 In addition, a number of changes have been made to the notes to the financial statements to assist the reader's understanding of the document, to correct errors and ensure compliance with the requirements of the Code.
- 26 There was a number of 'non-material misstatements' identified which remain unadjusted. These are also listed in Section 6 of the Audit Completion Report. As the unadjusted misstatements do not materially affect the accuracy/ integrity of the statement of accounts, no adjustments have been made for these items.
- 27 A separate Audit Completion Report has been provided for the Pension Fund. There was a number of 'misstatements' identified during the audit. These are listed in Section 6 of the Audit Completion Report for the Pension Fund considered by members earlier in the meeting.
- 28 Upon completion of the audit of the accounts, a "letter of representation" will be produced which will contain the reasons for not adjusting any items.
- 29 To help Members in reading and interpreting the statement of accounts contents, Appendix 2 to this report briefly explains the purpose of each section of the statement.

### **Audit Opinion**

- 30 On completion of the audit of the accounts, auditors must give their opinion on the financial statements of Durham County Council and the Pension Fund, including:

- a) whether they give a true and fair view of the financial position of the council and the Pension Fund and their expenditure and income for the year in question; and
  - b) whether they have been prepared properly in accordance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
- 31 The auditor can issue a 'qualified opinion' where he has some reservations or concerns, or an 'unqualified opinion' where he does not have any such reservations.
- 32 In addition, the auditor is required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office issues guidance to auditors that underpins the work they are required to carry out and sets out the reporting criteria to be considered. The criteria is:
- a) Financial sustainability – how the council plans and manages its resources to ensure it can continue to deliver its services;
  - b) Governance - how the council ensures that it makes informed decisions and properly manages its risks; and
  - c) Improving economy, efficiency and effectiveness - how the council uses information about its costs and performance to improve the way it manages and delivers its services.
- 33 For 2021/22, the council's Audit Completion Report identifies that audit work is substantially complete and there are no matters, currently which would require modification of the audit opinion. However full audit opinion and certification as a result of infrastructure assets and WGA resolution requirements remains outstanding.
- 34 The key issue around infrastructure assets is in relation to the derecognition of parts of infrastructure assets when replacement expenditure is undertaken. There are also related difficulties around the reporting of Gross historical cost and accumulated depreciation.
- 35 CIPFA's proposal to update the Accounting Code to suspend the disclosure of Gross Cost/ Depreciation is currently being consulted upon.
- 36 Based upon CIPFA's proposal, the following paragraphs provide alternative format to the statement of accounts :

- Note 14 Page 82: Property Plant and Equipment – Movement Balance 2021/22 Table – removal of gross cost and depreciation;
- Note 14 Page 83: Property Plant and Equipment 2020/21 Table – removal of gross cost and depreciation;
- Note 14 – additional table : 2021/22 (and 2020/21 previous years comparators) – Highways Network infrastructure Assets – Movement on Balances;
- Note 14 – additional table : 2021/22 (and 2020/21 previous years comparators) – Reconciling Note re Infrastructure Assets and Balance sheet.

	Operational			Non-Operational		Total
	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Community Assets	Surplus Assets	Assets Under Construction	
	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>						
At 1 April 2021	1,206,221	72,312	1,465	37,892	41,674	1,359,564
Additions	32,844	12,887	10	564	28,811	75,116
Revaluation increases/(decreases)	-211,855	-	-	3,735	-	-208,120
Derecognition - disposals	-35,078	-6,394	-8	-727	-	-42,207
Assets reclassified (to)/from Held for Sale	-	-	-	-2,865	-	-2,865
Other reclassifications	48,932	-	158	24	-49,114	-
Other movements in cost or valuation	-	-	-	-	-	-
<b>At 31 March 2022</b>	<b>1,041,064</b>	<b>78,805</b>	<b>1,625</b>	<b>38,623</b>	<b>21,371</b>	<b>1,181,488</b>
<b>Accumulated Depreciation and Impairment</b>						
At 1 April 2021	-69,194	-40,926	-88	-11	-	-110,219
Depreciation charge	-23,572	-9,605	-	-13	-	-33,190
Depreciation written out on revaluation	46,924	-	-	11	-	46,935
Impairment losses/(reversals)	-5,655	-	-	-	-	-5,655
Derecognition - disposals	9,814	6,207	-	-	-	16,021
Assets reclassified (to)/from Held for Sale	-	-	-	1	-	1
Other reclassifications	-	-	-	-	-	-
Other movements in cost or valuation	-	-	-	-	-	-
<b>At 31 March 2022</b>	<b>-41,683</b>	<b>-44,324</b>	<b>-88</b>	<b>-12</b>	<b>-</b>	<b>-86,107</b>
<b>Net Book Value</b>						
At 31 March 2022	999,381	34,481	1,537	38,611	21,371	1,095,381
At 31 March 2021	1,137,027	31,386	1,377	37,881	41,674	1,249,345
The Revaluations / Impairments above:						

	Operational			Non-Operational		Total
	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Community Assets	Surplus Assets	Assets Under Construction	
	£000	£000	£000	£000	£000	£000
Revaluation increases/(decreases)	-211,855	-	-	3,735	-	-208,120
Depreciation written out	46,924	-	-	11	-	46,935
Impairment losses/(reversals)	-5,655	-	-	-	-	-5,655
	-170,586	-	-	3,747	-	-166,839
Are recognised as follows:						
Revaluation / depreciation in the Revaluation Reserve	-84,777	-	-	3,683	-	-81,094
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-80,154	-	-	64	-	-80,090
Impairment losses in the Revaluation Reserve	-4,188	-	-	-	-	-4,188
Impairment losses in the Surplus/Deficit on the Provision of Services	-1,467	-	-	-	-	-1,467
	-170,586	-	-	3,747	-	-166,839

	Operational			Non-Operational		Total
	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Community Assets	Surplus Assets	Assets Under Construction	
	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>						
At 1 April 2020	1,239,919	97,262	1,456	34,787	25,565	1,398,989
Additions	24,643	10,270	2	666	29,927	65,508
Revaluation increases/(decreases)	-22,459	-	-	4,689	-	-17,770
Derecognition - disposals	-48,537	-35,220	-	-2,234	-	-85,991
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-
Other reclassifications	12,655	-	7	-16	-13,818	-1,172
Other movements in cost or valuation	-	-	-	-	-	-
<b>At 31 March 2021</b>	<b>1,206,221</b>	<b>72,312</b>	<b>1,465</b>	<b>37,892</b>	<b>41,674</b>	<b>1,359,564</b>
<b>Accumulated Depreciation and Impairment</b>						
At 1 April 2020	-53,105	-66,532	-88	-156	-	-119,881
Depreciation charge	-34,061	-9,264	-	-13	-	-43,338
Depreciation written out on revaluation	15,479	-	-	158	-	15,637
Impairment losses/(reversals)	-278	-	-	-	-	-278
Derecognition - disposals	2,742	34,870	-	7	-	37,619
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-
Other reclassifications	29	-	-	-7	-	22
Other movements in cost or valuation	-	-	-	-	-	-
<b>At 31 March 2021</b>	<b>-69,194</b>	<b>-40,926</b>	<b>-88</b>	<b>-11</b>	<b>-</b>	<b>-110,219</b>



	Operational			Non-Operational		Total
	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Community Assets	Surplus Assets	Assets Under Construction	
	£000	£000	£000	£000	£000	£000
<b>Net Book Value</b>						
At 31 March 2021	1,137,027	31,386	1,377	37,881	41,674	1,249,345
At 31 March 2020	1,186,814	30,730	1,368	34,631	25,565	1,279,108
The Revaluations / Impairments above:						
Revaluation increases/(decreases)	-22,459	-	-	4,689	-	-17,770
Depreciation written out	15,479	-	-	158	-	15,637
Impairment losses/(reversals)	-278	-	-	-	-	-278
	-7,258	-	-	4,847	-	-2,411
Are recognised as follows:						
Revaluation / depreciation in the Revaluation Reserve	7,543	-	-	6,324	-	13,867
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-14,523	-	-	-1,477	-	-16,000
Impairment losses in the Revaluation Reserve	-236	-	-	-	-	-236
Impairment losses in the Surplus/Deficit on the Provision of Services	-42	-	-	-	-	-42
	-7,258	-	-	4,847	-	-2,411

<b>Highways Network Infrastructure Assets</b>		
<b>Movement on Balances</b>	<b>2020-21</b>	<b>2021-22</b>
	<b>£000</b>	<b>£000</b>
<b>Net Book Value (Modified Historical Cost)</b>		
At 1 April	484,300	505,151
Additions	37,893	34,637
Derecognition	-	-230
Depreciation	-17,176	-18,015
Impairment	-	-
Other movements in cost	134	-
<b>Net Book Value</b>		
<b>At 31 March</b>	<b>505,151</b>	<b>521,543</b>

**Where infrastructure assets are not disclosed on the face of the Balance Sheet a reconciling note will be required:**

	<b>31 March 2021 £000</b>	<b>31 March 2022 £000</b>
<b>Net Book Value</b>		
Infrastructure Assets	505,151	521,543
Other PPE Assets	1,249,345	1,095,381
<b>Total PPE Assets</b>	<u>1,754,496</u>	<u>1,616,924</u>

- 37 The auditor can only formally conclude the audit and issue an audit certificate upon completion of their audit work on the Whole of Government Accounts (WGA) consolidation pack and when he has completed the work necessary to satisfy himself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources through the Value for Money audit approach.
- 38 Clarification from the National Audit Office regarding WGA guidance and group instructions are awaited at the time of writing. In addition, it is expected that audit conclusion will be undertaken in early 2023.

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## **Appendix 1: Implications**

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### **Legal Implications**

Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2021/22 which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

### **Finance**

This report details the financial position of the council as at 31 March 2022.

### **Consultation**

None.

### **Equality and Diversity / Public Sector Equality Duty**

None.

### **Climate Change**

None.

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

None.

### **Accommodation**

None.

### **Risk**

None.

### **Procurement**

None.

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**Appendix 2: Statement of Accounts - Summary and Explanation**


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Item	Pages	Explanation of Purpose and Content
Narrative Report	3-30	To offer interested parties an easily understandable effective guide to the most significant matters reported in the accounts.
Statement of Responsibilities for the Statement of Accounts	31-32	Sets out the responsibilities of the council and the Corporate Director of Resources for the statement of accounts.
Independent Auditor's Report to Durham County Council	33-37	Once the audit is completed the Auditor's report will be signed.
<b>Durham County Council Core Financial Statements</b>		
Comprehensive Income and Expenditure Statement (CIES)	38	This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
Movement in Reserves Statement	39	This statement shows the movement in the year on the different reserves held by the council analysed into 'usable' reserves and other reserves.
Balance Sheet	40	The balance sheet shows the value of the assets and liabilities recognised by the council as at 31 March. The net assets of the council (assets less liabilities) are matched by the reserves held by the council.
Cash Flow Statement	41	The cash flow statement shows the changes in cash and cash equivalents of the council during the reporting period. The statement shows how the council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

Item	Pages	Explanation of Purpose and Content
Notes to the Core Financial Statements	42 - 147	The notes are important in the presentation of a true and fair view. They aim to assist understanding by presenting information about the basis of preparation of the core financial statements, by disclosing information required by the Code that is not presented elsewhere and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts. They also include the policies and procedures adopted in compiling the accounts.
Collection Fund	148 - 154	The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities, such as the council, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.
Independent Auditor's Report to DCC Pension Fund	155 – 159	Once the audit is completed the Auditor's report will be signed.
Durham County Council Pension Fund Accounts	160 – 202	Shows the operation and membership of the Pension Fund, the expenditure and income during the year and its financial position at 31 March. Notes providing further information follow the accounts.
Annual Governance Statement	203 - 231	Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the council.
Glossary of Terms used in the Accounts	232 - 247	To assist readers in understanding terminology used in the statement of accounts.