

Appendix 1**AUDIT OF ACCOUNTS 2022/23 AND ASSOCIATED MATTERS**

In July 2023, this Committee received the external auditors Audit Strategy Memorandum for the year ending 31 March 2023 setting out their approach to the audit of the 2022/23 accounts, highlighting the significant audit risks and areas of key judgements.

The draft Statement of Accounts 2022/23 were approved and presented to Forvis Mazars for review on 31 May 2023. This fully met the requirements of the Accounts and Audit Regulations 2015. The public inspection period commenced on 1 June 2023 and ended on 12 July 2023 with details placed on the Council's website.

Forvis Mazars subsequently commenced their audit review of the 2022/23 accounts from October 2023. This involved scrutinising working papers and other supporting documentation and liaising as necessary with officers and associated third parties. Mazars' work focused upon the following significant risks:

- Management override of controls;
- Net defined benefit liability valuation; and
- Valuation of property, plant, equipment and Investment properties.

Forvis Mazars have almost concluded their work on the accounts and have produced their Audit Completion Report. The auditors have stated in the Executive Summary that, at the time of preparing the report, there are no significant matters outstanding or significant matters remaining outstanding. It is pleasing to note that the auditors are anticipating issuing an unqualified opinion on the financial statements.

Section 2 of the report details the status of the audit which is nearing full completion. The only outstanding matters relate to the Whole Government Accounts, where National Audit Office instructions for local authority audits are not yet available, and the final audit quality control and completion procedures.

Section 4 of the report details the significant findings from Forvis Mazars' work. The audit observations and conclusions have resulted in five internal control recommendations in Section 5 relating to property revaluations in accordance with a rolling five-year programme in line with the CIPFA code requirements; an annual assessment of property valuations not subject to revaluation; related party declarations by Members; accruals; and the reconciliation of fixed assets. The recommendations have been acknowledged and agreed, with details including the management responses being set out further below.

The auditors identified a number of misstatements in the draft 2022/23 accounts. Full details are set out in section 6 and the most significant of these have been adjusted for accordingly. There were four misstatements that were not considered to be material and for which no adjustment has been made. These are listed within the Letter of Representation that is included with this report.

Section 7 sets out progress made with the auditors' conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources i.e. the Value for Money (VFM) conclusion. The auditors are yet to complete their VFM work in respect of the Council's arrangements for the year ended 31 March 2023. At the time of preparing its report, Forvis Mazars have not identified any significant weaknesses in arrangements that would require it to make a recommendation. The opinion will be provided in the Auditor's Annual Report within three months of issuing this report.

The meeting of Cabinet on 4 July 2023 considered a report summarising capital and revenue spending in 2022/23 and some detail as to the more significant factors which accounted for any variances. The adjusted misstatements made to the accounts relating to accruals had an overall impact on the Comprehensive Income and Expenditure Statement (CIES) of £241k. This is split between the General Fund at £102k and the Housing Revenue Account (HRA) at £139k. These are considered to be timing issues. Although the outturn for 2022/23 will increase and revenue balances decrease, these will be reversed out again in the CIES for 2023/24 where outturn will decrease and balances increase back to the published 2023/24 amounts.

Forvis Mazars – Internal Control Recommendations

The auditors have made five internal control recommendations in their ACR.

Three are priority ranked as 'Level 1' (high) where in the auditors' view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.

A further two recommendations are priority ranked as 'Level 2' (medium) where there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.

1. Significant deficiencies in internal control – Property Revaluations (Level 1)

The Council has a policy to revalue assets on a rolling five-year programme and this is in line with the CIPFA code requirements. Mazars noted that certain assets had not been revalued in the last six years, which is contrary to the policy. This could lead to inaccurate financial reporting and potential material misstatement of the Council's asset values.

Recommendation – Management should ensure that assets are revalued in line with the CIPFA Code requirement of all assets being revalued within a five-year cycle.

Management response – Agreed. There was an oversight in the established revaluation programme which was attributable to a change in the process, moving from a wholly internal valuation to utilising the services of an independent valuer. The process was also impacted, at the time, by the turnover of key officers.

Going forward there will be early planning of the valuation process for year-end with engagement between the Estates and Finance Services teams to ensure that all programmed asset revaluations are completed effectively and in a timely manner.

2. Significant deficiencies in internal control – Property Valuations (Level 1)

The Council has a five-year rolling property valuation programme. For properties not revalued in year the Council is required to perform an assessment to ensure that these property values are materially correct. This was not done by the Council in the current year. The potential effects are that asset properties, as disclosed in the accounts, could be materially misstated.

Recommendation – The Council should ensure that properties not revalued in year are assessed and are reported at materially correct values.

Management response – The Council has an ‘impairment review’ process in place which is considered to be sufficient for this purpose and in line with the Code of Practice. Those assets where it is more likely that valuations will fluctuate significantly (such as the commercial units in Beeston Square) are assessed by Estates on a more frequent basis.

It is proposed that for future years an internal desktop valuation of HRA beacon properties will be completed annually. A full revaluation would then be completed by an external valuer every five years.

3. Significant deficiencies in internal control – Members’ Declarations of Interest (Level 1)

During the testing of related party transactions, we noted a number of declarations were not completed by members. The potential effects are that material related party transactions could go undetected which would lead to material misstatements in the financial statements.

Recommendation – The Council should ensure that all declaration forms are completed on an annual basis. These must be used as a basis to complete the related party note in the accounts.

Management response – Agreed. Officers will continue in their endeavours to obtain 100% of the annual declarations required from Members in good time. This continues to require an early and sustained effort from officers. The support of Members, and their respective political groups, is essential in successfully completing this task.

4. Other deficiencies in internal control – Accruals (Level 2)

During audit testing of income and expenditure recorded to the correct financial year, we found a number of transactions which had been recorded in the wrong period. This was also found in our testing of debtors and creditors testing,

meaning inaccurate coding of transactions to the correct financial period has occurred. This could lead to material misstatements in the financial statements.

Recommendation – The Council should ensure that transactions are recorded to the financial period in which income is earned and expenditure is accrued, ensuring review procedures are in place to ensure that the recognition criteria used is correct.

Management response – Agreed. The issues raised were mainly linked to service areas which had seen a high level of key officer turnover at budget manager level during the financial year-end period.

The Accountancy team will continue to complete an extensive review of transactions in March and April to identify potential accruals, in addition to processing accruals requests from budget managers.

A review of budget management arrangements and further engagement with service managers throughout the year should help to mitigate the risks in advance of year end. Any potential key risk areas within services will be identified and further resources allocated accordingly.

5. Significant deficiencies in internal control – Reconciliation of Assets (Level 2)

When we tested property, plant and equipment we noted that a number of HRA assets were omitted from the Fixed Asset Register (FAR), we also noted that some discrepancies between the FAR, revaluations schedule, where the revalued Crematorium was revalued but not updated on the FAR, as well as the disclosure on the accounts.

The fixed asset register is the primary source of all assets and is supposed to be complete and updated with correct information at all times. Failure to do this could lead to values and other information being incorrectly disclosed in the accounts leading to material misstatements.

Recommendation – The Council should ensure that the asset register is updated regularly, with correct and up to date information. Adequate review procedures should be completed prior to completion of account compilation to ensure that the disclosure are in line with supporting evidence.

Management response – Agreed. An exercise will be completed to review and update the fixed asset register to reflect the current status. The late revaluation of the Crematorium has been duly updated in the asset register. In terms of the HRA dwellings, an internal reconciliation of asset numbers and values will be completed by the Finance Services team as part of the financial year-end process. This will provide additional checks and balances of asset records held by Estates, Housing and Finance to ensure that these are consistent.