

## STATEMENT OF ACCOUNTS 2019/20; 2020/21; AND 2021/22

### Executive Summary

This report provides members of the Audit and Governance Committee with the draft single entity accounts for the years 2019/20, 2020/21 and 2021/22.

Our external auditors (BDO) have been undertaking work on reaching an opinion on the 2019/20 accounts but have yet to finish their work and issue an opinion. Their work on the 2020/21 and 2021/22 audit opinions remains substantially unstated pending the outcome of the 2019/20 review and confirmation of balance to be brought forward into these years.

Nationally, the number of local authorities with outstanding audits outstanding and failing to publish accounts within prescribed deadlines has been growing. Whilst the previous government had stated its intention to enable a “backstop” position to be adopted, whereby this backlog could be resolved by the issuing of disclaimed opinions, the calling of a general election prevented the necessary legislative framework from being enacted. Local authorities and external audit firms await further guidance on whether a new backstop will be introduced or audits will need to be completed.

The issues identified by BDO in their work to date on the 2019/20 accounts are intended to be addressed within the 2022/23 and 2023/24 accounts (planned to be presented to this committee in the Autumn with the consolidated group accounts once available).

BDO have commenced work on auditing the 2019/20 accounts. Therefore the accounts for 2019/20 appended to this report remain with the wording as they were submitted to BDO for audit and as such refer to Leigh Clarke as the Finance Director at that time. Similarly, the Annual Governance Statements in each year refer to the original signatories at the time they were submitted to Audit and Governance committee.

Reviews of the Council’s finances, government intervention, and the Section 114 Notice have established that the Council has not set aside sufficient monies to repay its debt and there are high levels of irrecoverable loans. Work is still on-going in establishing the full extent of these issues. As detailed in the explanatory forward to the 2020/21 and 2021/22 accounts, the issues outlined in the Section 114 notice and the mitigations under the capitalisation direction, will be dealt with in the 2023/24 accounts. The appended accounts present the financial positions known at the end of the reporting period of the financial statements which was prior to the government intervention and Section 114 Notice. Members are asked to note the accounts and refer them to the Council for consideration.

### Recommendations

The Committee is requested to:

#### **RESOLVE That**

The draft accounts for the years 2019/20, 2020/21 and 2021/22 be noted and referred to Council for consideration.

The Committee has the authority to determine the recommendation(s) set out above.

**Background Papers:** None

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**Portfolio Holder:** Councillor Dale Roberts  
(Economic Development and Finance)

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## 1.0 Purpose of Report

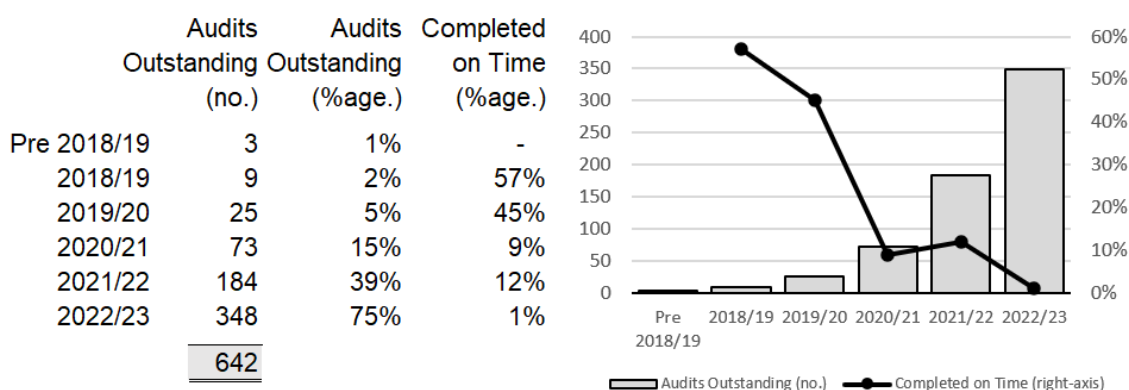
1.1 The purpose of this report is to:

- To present to members of the committee the draft accounts for the years 2019/20, 2020/21 and 2021/22;
- To provide an update on external audit verification of these accounts; and
- Provide an update on the planned timetable for publication of remaining outstanding annual accounts (2022/23 and 2023/24) and remaining adjustments from earlier years that will be corrected in those later accounts.

## 2.0 Draft Accounts 2019/20, 2020/21 and 2021/22

2.1 Public Sector Audit Appointments [PSAA] who tendered and appointed external auditors on behalf of almost all councils recently reported that 642 audit opinions were outstanding at the end of March 2024. The significant delays in the certification of local authority accounts and reducing number of those able to complete their work by the deadline is exemplified in the table below:

**TABLE 1 – NATIONAL PROGRESS ON COMPLETING LOCAL AUTHORITY ACCOUNTS**



2.2 Delays in external audit of the 2019/20 accounts has impacted on the completion and publication of future year accounts. Additionally there were short comings in the financial information relating to the Group companies. Woking Borough Council last had the 2018/19 Accounts audited and signed off, with the 2019/20 Accounts continuing to be in the process of being audited by our (then) external auditors BDO. Members of this committee have received frequent updates from the external auditors and Director of Finance as to the issues to be resolved and progress towards finalizing those accounts.

2.3 The previous government had indicated its intention to resolve the significant backlog in outstanding local authority audits by introducing a “backstop” date whereafter outstanding audits up to the year 2022/23 would be resolved by audit firms being able to issue a disclaimed opinion to those accounts – effectively resetting the system.

2.4 The required legislation to allow for this backstop failed to be enacted before the calling of the general election. As a consequence the sector as a whole awaits further guidance as to any new approach intended to be taken to address the backlog in concluding audit opinions.

2.5 Council last approved accounts for Woking Borough Council on 25<sup>th</sup> July 2019 when it considered the 2018/19 Accounts and were approved by our external auditors on 31<sup>st</sup> July 2019.

- 2.6 Since that date our external auditors (BDO) have been working on validating and reaching an opinion on the drafted 2019/20 Accounts but, whilst raising a number of substantial queries on those accounts, have yet to complete their work.
- 2.7 The accounts for 2019/20 appended to this report remain with the wording as they were submitted to BDO for audit and as such refer to Leigh Clarke as the Finance Director at that time. Similarly, the Annual Governance Statements in each year refer to the original signatories at the time they were submitted to Audit and Governance committee.
- 2.8 The significant transactions and balances relating to investment property and loans to group companies (and respective capital accounting) has been particularly challenging in achieving certification of the 2019/20 accounts, and has thereafter delayed work being started by our auditors on subsequent years. In particular, a local resident submitted an objection to the 2019/20 accounts on the basis of the accounting treatment of those issues and the setting aside of resources to repay debt – a challenge which the Council has recognized the merit of and aims to correct.
- 2.9 With a number of years of accounts needing to be prepared and published, the Council is intending to minimize the cost of correcting multiple sets of accounts by making the substantial changes within the 2023/24 accounts and reflects the government-approved Capitalisation Direction to address these issues being approved in 2023/24.
- 2.10 In reviewing the historic accounting treatment of specific areas, a Section 114 notice was issued by the Finance Director in June 2023 and in particular identified that:
- a) Charges from the General Fund to the Housing Revenue Account [*HRA*] had been overstated resulting General Fund balances being overstated and HRA balances understated; and
  - b) Insufficient amounts had historically been set aside for the repayment of capital debt (Minimum Revenue Provision [*MRP*] payments) in accordance with regulatory guidance relating to current and prior years. The resultant correction would require exceptional financial support from government by means of a Capitalisation Direction [*CD*] – a total of £591m for 2023/24 and earlier years and an estimated £193m during 2024/25.
  - c) The effect of the above two adjustments would have, by themselves, resulted in negative levels of General Fund reserves and formed part of the 2023/24 Capitalisation Direction approved by central government.
- 2.11 This report provides members with draft sets of accounts for three separate years: 2019/20 (currently still subject to external audit scrutiny) as they had not previously been considered by members; and further accounts for 2020/21 and 2021/22. These latter accounts are for the “single-entity” and as such do not include the additional group accounts information when consolidated with the accounts of the separate organisations the Council has control over.
- 2.12 It is our intention to report back to Audit and Governance Committee in the autumn with the group position for these years and to also present the remaining 2022/23 and 2023/24 accounts at that meeting. The adjustments to correct the recharging between the General Fund and the HRA will also be reported once finalised.
- 2.13 The accounts accompanying this report present a true and fair view subject to, and in the context of, the above changes still to be made in 2022/23 and 2023/24 to address the outstanding specific issues referred to.
- 2.14 An analysis of the change in Balance Sheet items between the last audited accounts (2018/19) and the latest published accounts is set out in the table below:

**TABLE 2 – SUMMARY OF KEY MOVEMENTS IN BALANCE SHEET**

	2018/19 (£m's)	2019/20 (£m's)	2020/21 (£m's)	2021/22 (£m's)
Long Term Assets	1,389	1,654	1,882	2,096
Current Assets	167	54	111	114
Current Liabilities	(91)	(107)	(252)	(153)
Long Term Liabilities	(1,263)	(1,411)	(1,599)	(1,888)
Net Assets	202	190	142	169
General Fund Reserves	27	31	41	30
Housing Revenue Account Reserves	6	5	4	3
Capital Reserves	56	59	67	82
Other Unusable Reserves	113	95	30	54
Net Reserves	202	190	142	169

2.15 The Balance Sheet summary set out above will be subject to adjustment when the changes as set out in earlier points a) to c) are made in the 2022/23 and 2023/24 accounts.

2.16 Subject to any backstop arrangements the new government may be minded to put in place, any further work undertaken by our external auditors on their 2019/20 audit review may result in the opening balances across all years being adjusted.

### **3.0 Implications**

#### Finance

3.1 Whilst the finance implications are explicit within this report, the publication and subsequent validation of annual accounts helps to inform effective decision making across the organization, and assists in discussions with central government over exceptional financial support.

#### Equalities and Human Resources

3.2 There are no equalities or human resources implications in this report.

#### Legal

3.3 The Statement of Accounts are a statutory document. The Local Government Act 2003 (section 21) enables the Secretary of State to issue regulation on the preparation and publication of accounts for local authorities, which is fulfilled by the Accounts and Audit Regulations 2015 (as amended). The requirements are that:

- (i) Every council must prepare a statement of accounts in accordance with the Regulations and proper accounting practices.
- (ii) These statements must include a narrative statement (also known as the narrative report) which comments on the Council's financial performance and the economy efficiency and effective in its use of resources over the financial year.
- (iii) The Chief Financial Officer (the Section 151 Officer/ CFO) must sign and date the accounts and so confirm that they are satisfied that they provide a true and fair view of the Council's finances.
- (iv) The Council must ensure that there is a period of public consultation.

- (v) After the period of public consultation, the Statement of Accounts should be considered by Full Council for them to discuss and approve the statements. The statements must then be signed and dated to this effect.
- (vi) The Council must publish the annual Statement of Accounts, the narrative statement and the annual governance statement, together with any external audit opinion (reg 10(1)) by a specified date. This requirement is usually fulfilled via the council's website. Alternatively, where the Statements are not yet available for publication, an explanation of why the Council has not been able to comply with this requirement must be published (sec 10(2)).

3.4 The Council's Audit and Governance Committee has an essential role in overseeing the submission of accounts for audit and the work of the external auditor. It will liaise with the Council's (CFO) to ensure that the unaudited Statements are prepared on time, and it is good practice for the unaudited statements to be discussed at the Committee in advance of them being forwarded for audit. Whilst the Statement of Accounts is "owned" by the full Council the Audit Committee have a vital role in demonstrating corporate ownership and governance over the accounts preparation process and their subsequent audit but there is no legal requirement for them to be approved by anyone other than the Council's CFO

#### **4.0 Engagement and Consultation**

4.1 No consultation or engagement is required for this report.

REPORT ENDS