14 December 2023 Audit, Standards and Risk, Public Questions and Answers

(1) "As it is now established, following the publication on the Council website on 12th September, that the Minutes of the Executive Meeting of 9th November 2016 expressly state that the House of Fraser store was acquired for Investment Purposes (thereby by implication not for regeneration) can the Council and BDO confirm that any diminution in value will be reflected in the Usable Reserves of the Council".

The Council's Statement of Accounts is compiled in accordance with the CIPFA Code of Practice, which derives from international financial reporting standards and international accounting standards.

Extract from Code of Practice:

> '44.24 Investment property is property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for:
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> a) use in the production or supply of goods or services or for administrative purposes, or
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> b) sale in the ordinary course of operations.
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> If earning rentals were an outcome of a regeneration policy, for example, the properties concerned would be accounted for as property, plant and equipment rather than investment property. Social housing is delivering a service and shall be accounted for as property, plant and equipment.'

Extract from Guidance Notes for Practitioners:

> 'Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.
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> Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement

date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve [or in Scotland, a statutory capital fund or capital grants and receipts unapplied account].'

The CIPFA accounting guidance is clear that to be considered as an 'investment property' in accounting terms, it must be acquired solely for either capital appreciation or income revenue returns. As no property within our boundaries (and in particular the SQ/HoF) will ever be totally free from an element of political direction or influence in terms of its use, sale or further acquisition, this cannot, under the terms of CIPFA accounting guidance ever be deemed as solely an 'investment property'. Whilst Mr Bain's undoubted accounting knowledge and experience is not in question, in this instance I would suggest that the treatment he proposes is not in fact correct under the CIPFA guidance. Whereas there are often political statements made around acquisitions and disposals of assets, it is for the Accounting Officer and the External Auditors to determine the correct treatment in the accounts of the Council.

2) "Does the Council accept that the entries in the years to March 2018 and 2019 in the Reserves statement require more detailed explanation. The Usable Reserves rose from £21 million to £41 million without any apparent reason, recognising that in both years there was a deficit in respect of the cost of services provision, and the increase is restricted in description to (1) Legal (2) Investment Development. These are large unexplained numbers".

The accounts for 2018/19 have been published and audited. Sufficient details would be in the notes to the accounts. Given the pressure on both the Council's accounting team and the external auditors to finalise the accounts that are still outstanding, it would not be considered a good use of current resources to re-open and re-audit a previously published set of accounting statements.

3) "Does the Council accept the disappointment of residents that after nearly four years the Accounts for the year to March 2020 might only achieve a disclaimed audit report from BDO when successive meetings of this Committee have repeatedly heard that the margin on difference between the Council and the Auditor was relatively minor, focusing principally on two matters namely the property valuations and the debtors. Until more is understood about the reservations held by BDO as residents we are no further on, unable to understand what is going on. A qualified report would be preferable as this would be a better setting off point for subsequent years which are yet to be reported on".

The government (at the time of drafting) has not published the results of its consultation on the position of local government audit (following discussions with the audit partner firms, the Public Sector Audit Appoints (PSAA) body, the FRC and Local Authorities, and in particular, the departments plans for alleviating the backlog of audits numbering some 950 unaudited accounts across the sector. Once it does, then a clearer understanding of what options are available to the external auditors regarding 'disclaiming' the Council's accounts.

The question is somewhat rhetorical as obviously the Council would share any residents' disappointment. However, although the Council and the External Auditors are indeed close to the final few points on the audit, there is still some way to go to finalise an audit opinion, and there are a number of conflicting priorities for all the audit firms currently trying to complete outstanding audits of local authority accounts, not just this Council's.

"Would the Chairman direct Mr Bladen to answer my e.mail of 26th October copied to the Leader of the Council and Michael Gove as Mr Gove, the Secretary of State for Levelling Up, Housing and Communities, has indicated that he is interested in the answer. I understand Mr Bladen's concern to recognise client confidentiality but I am drawing to his attention an issue of concern which he will be required to answer in time and relates to a matter raised without reply with Officers of this Council".

The very nature of external audit (and the role of the auditors) should always be independent and free from influence by this Committee. Therefore the Committee is able to request that the auditors (BDO) consider responding if appropriate and without compromising client confidentiality, but are unable to direct them to.

A further question was also received which related to the absence of the Quarter 2 Treasury Management Report from agenda. The report is now included as part of this agenda supplements pack.