

APPROVAL OF ACCOUNTS 2018/19

Lead Officer: Sheila Collins, Interim Director of Finance

Author: Lizzie Watkin, Strategic Finance Manager – Corporate and Deputy s151

Contact Details: sdcollins@somerset.gov.uk or (01823) 359014 or
ewatkin@somerset.gov.uk or (01823) 359573

Cabinet Member: Mandy Chilcott

Division and Local Member: All

1. Summary/link to the Annual Plan

- 1.1** As part of the formal process of closing the County Council's 2018/19 accounts the Chief Financial Officer is required to approve the draft Statement of Accounts by 31 May. The Audit Committee is subsequently required to approve the audited accounts by 31 July.

2. Issues for consideration

- 2.1** Members are recommended to approve;
- The audited Statement of Accounts for 2018/19 (Appendix A)
 - The Letter of Representation for 2018/19 (section 5.1 and Appendix B);
 - The updated Annual Governance Statement as included within the Statement of Accounts (section 6)

Members are also asked to note the position of the External Auditors assessment of the Authority's Value for Money (VFM) judgment which remains outstanding (section 7).

3. Background – Statement of Accounts

- 3.1** The Accounts and Audit Regulations issued by the Secretary of State set out the requirements for the preparation and publication of final accounts. These regulations include the requirement for the formal approval, by a full Committee, of the Authority's Statement of Accounts.
- 3.2** The attached Statement of Accounts (Appendix A) has been prepared in accordance with the current Code of Practice on Local Authority Accounting in Great Britain. The Statement is required to present a true and fair view of the County Council's financial position at 31 March 2019 and also the income and expenditure for the financial year 2018/19. A separate Statement of Accounts has been produced for the Pension Fund.

- 3.3** The Statement of Accounts was available for public inspection during the 30-working day period running from 3 June to 12 July 2019.
- 3.4** The Authority's external auditors, Grant Thornton, started their detailed examination of the Statement of Accounts on 3 June. There are some small elements of the audit that remain outstanding at the point this report has been published and these will be presented in their draft Audit Findings Report published within the same suite of agenda papers.

Grant Thornton are only able to formally conclude the audit and issue their final Audit Report and Audit Certificate if they have received a copy of the Statement of Accounts as approved by this Committee and all elements of their work are concluded.

The issuing of the Audit Certificate will be delayed until the completion of the audit of the Whole of Government Accounts (WGA) submission due to the timing of the issuing of the WGA toolkit by HM Treasury and WGA submission timetable. This is usual and the work is planned for August.

In addition, the Value for Money (VFM) conclusion will be completed following further work during August to confirm the council's robustness of future budgets for demand growth for social care. (see section 7).

This Committee will be notified on final receipt of the Audit Certificate and the expectation is that the committee will receive the Value for Money conclusion at the next meeting, on 19 September 2019.

4. Statement of Accounts – Content

- 4.1** The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

The Authority's Statements includes the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and a Cash Flow Statement. In addition, there is an extract from the Somerset Pension Fund Accounts.

- 4.2** There are no significant presentational changes this year.

- 4.3** This year the authority has seen a change in the audit approach taken by Grant Thornton and additional scrutiny has been seen nationally as a result of requests made on auditors by the Financial Reporting Council. This applies to audits at all authorities. In addition, this year this authority has been subject to a “technical” review (which occurs every three years) and has raised queries on some disclosures and notes that have not been queried in past audits. The remainder of this section details the findings during the audit process and the subsequent changes to the accounts since they were made available to the Audit Committee in May 2019.
- 4.4** As a result of the Government losing the right to appeal a ruling on a legal challenge on the grounds of age discrimination within a public sector pension scheme transitional arrangement, it is presumed that the Government will now revise the regulations of all schemes including the Local Government Pension Scheme in a way that is not age discriminatory. The financial impact is that the estimated pension liability for the Authority will increase. A request was made for the pension actuary to assess the likely impact of the McCloud judgement and the Accounts have been re-stated to include this additional assessed liability. The authority had originally disclosed the potential liability within contingent liabilities as the right of appeal had not been decided at the date the draft accounts were published.
- 4.5** During the audit testing a £1.3m contract discount was found to be classified incorrectly as income when it should have been shown as reducing expenditure. Additionally, some disclosures have been amended and some removed to ensure the disclosures remain relevant and give the reader of the accounts a better understanding of the position of the authority. These have been amended and reflected in the Statements and can be seen in greater detail in Annex 1.
- 4.6** There are also some slight amendments to the wording to reflect the change from draft to final accounts.
- 4.7** During the audit testing some errors were found in the accruals posted and the accounts have not been adjusted for these items as they are not material in value. An accrual had been posted for the wrong value and reversed in an inappropriate way, which created erroneous amounts within the creditor and debtors on the balance sheet. Although the auditors have not found other errors, they have not confirmed that it is isolated and therefore have extrapolated the value of the error. This extrapolation is not the value of the error and therefore appears to be an error larger than the actual found error.

As a result of these findings additional corporate control checks will be put in place for the activities for closing the accounts for 2019/20 to ensure all larger accrual items (over £25k) have supporting evidence and are appropriate in nature.

- 4.8** Grant Thornton during their audit reviewed the value of our Property, Plant and Equipment (PPE). The valuation of PPE this year has included a decrease in the valuation of school land identified through a specific, formal valuation of a sample of school land assets which has been applied to the entire school land asset population in accordance with the professional valuer's opinion. This has the effect of reducing the value of our PPE assets in line with the accounting principle of prudence. The auditors do not agree with the application of this revaluation. This is noted in their draft Audit Findings Report.
- 4.9** Officers continue to consider the position of the Balance Sheet from the date it is approved by the Chief Financial Officer until the approved Accounts are published in case anything occurs that would change the perception of the accounts.

5. Letter of Representation

- 5.1** The International Standard on Auditing 580 requires auditors to obtain written representations from management and, where appropriate those charged with governance in an audit of the financial statements. This statement can be found in **Appendix B** as a formal Management Representation letter to Grant Thornton

The Committee are requested to formally approve this representation. Once approved the letter will be passed to our auditors.

6. Annual Governance Statement

- 6.1** The draft Annual Governance Statement (AGS) was approved by the Audit Committee at its meeting in June. Best practice requires local authorities to review their Annual Governance Statement immediately before the Statement of Accounts is approved to ensure that the governance framework and risks have not significantly changed since the review was carried out.
- 6.2** Following this review and consideration at Governance Board additional comments have been added to reflect economic development activity, and additional narrative added on Robust internal control and Assurance and effective accountability.

7. Value for Money (VFM)

- 7.1** Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), Grant Thornton are required to report whether, in their opinion the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Specific criteria are evaluated in areas, evidence as informed decision making, working with partners and other third parties, and sustainable resource deployment.

- 7.2** The conclusion that Grant Thornton reached as part of their overall audit opinion for 2017/18 was that the Authority did not have proper arrangements in place to ensure sustainable resource deployment and they therefore issued a qualified 'adverse' value for money conclusion. Alongside this, areas for improvement were recommended and an action plan was put in place. This action plan has been tracked and reported through to this Committee at every subsequent meeting and significant progress has been evidenced.
- 7.3** As part of the work Grant Thornton has undertaken to form a VFM conclusion for 2018/19 the Authority has been subject to unprecedented close review. Significant evidence in the form of reports, working documents and review documents have been provided for consideration and Grant Thornton have also presented this evidence to their Consistency Panel to ensure an appropriate conclusion is reached. To support this work, the Chief Finance Officer has also produced a robust 'Going Concern' statement and presented this to the auditors for consideration.
- 7.4** Grant Thornton are satisfied that looking back over the past year significant progress has been made to the financial position of the Authority and acknowledge the improvements made. They do however remain concerned about the future, with low level of reserves and concerns on the level of demand growth in the current financial planning assumptions that underpin the future years' budgets (beyond 2019/20).
- 7.5** Grant Thornton are referring their concerns on demand growth to an internal Grant Thornton expert in social care to more closely analyse the work that Adults and Children's Services have and are planning to undertake to manage demand effectively to ascertain whether the budget assumptions currently made by the Authority are robust and appropriate. Until this review work is complete Grant Thornton are not able to reach a VFM conclusion for the Authority by 31 July and the audit certificate will not be issued. The Authority have and will continue to fully supporting Grant Thornton with the work that is being carried out, which is anticipated to be carried out by the end of August.

8. The Next Steps

- 8.1** After approval of the Statement of Accounts and Letter of Representation by this committee the audited Statement of Accounts will be published and made available on the internet.
- 8.2** Once reached, the Value for Money conclusion will be reported back to this committee, expected to be 19 September 2019. When received the audit certificate will be added to the audited Statement of Accounts which will be published and made available on the internet.

9. Background papers

- 9.1** Cabinet (10 June 2019) - 2018/19 Revenue Budget Outturn Report; and
2018/19 Capital Budget Outturn Report

Note For sight of individual background papers please contact the report author.

Annex 1

Disclosure amendments since draft accounts were issued:

Page	Statement/Note	Description
Adjusted Misstatements		
80 & 98	Comprehensive I&E Statement & Note 8a.	Waste contract discount included £1.3m recorded as income and should have been netted off against expenditure. There is no other impact except the categorisation in this note.
80, 81, 83, 85, 94, 96, 98, 99, 102, 138, 149, 153, 159, 162 & 164	Comprehensive I&E Statement, Movement in Reserves Statement, Balance Sheet, Cashflow Statement & Notes; 6, 7, 8a, 9, 10, 34, 39, 43, 45, 50 & 52.	The McCloud ruling has required the recognition of a further £13.168m of liabilities meaning that the total comprehensive income and expenditure figure was overstated. The ruling has also required the restatement of other long-term liabilities and unusable reserves as these were both understated.
Misclassification and disclosure changes		
99	Note 9; Material Items of Income and Expenditure tables.	The material items of income and expenses included internal transfers, which although included for transparency were not a disclosure requirement. This line has been removed.
120	Note 25; Revaluation by year table.	The table disclosing the assets revalued over 5 years, was showing as 6 years in error.
111	Note 19; Table 2.	The disclosure of the Director of Finance and Performance within the Senior Officer remuneration table incorrectly included £3,700 in employer's NI which is now removed.
94	Note 6; table change & Note 7; text	Updated tables now include a reconciliation to the figures reported to members as part of the financial outturn to the net expenditure figure reported in the CIES.
112	Note 19; table 4 change & Note 20; text change	Exit packages had 3 duplicate entries for teachers. Table and text amended.
138	Note 34; table change	Money market funds have been reclassified as fair value through profit and loss rather than amortised cost.
174	The Pension Fund	Fair Value of Scheme Assets now include separate columns for quoted vs unquoted equities.
138	Note 34	Investments, debtors and cash and cash equivalents,

		are now shown as 'financial assets' at amortised cost.
59	Accounting policy 10	Additional text added to the accounting policy to identify the accounting treatment of prior year balances.
173	Group Accounts	Removed references to schools as not a consideration for Group Accounts, which although included for transparency were not a disclosure requirement.
10	Narrative Report table	The 'Austerity – Impact on Local Government Funding' table has been removed.
89,91,93, 105,110, 138,161	Notes; 3,4,5,14,19,34 & 49	Other amendments including spelling, grammar and syntax and other minor disclosures.
54, 69	Accounting policies; 2,3 & 14.	