

APPROVAL OF ACCOUNTS 2019/20

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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 2019/20 accounts the Chief Financial Officer is required to approve the draft Statement of Accounts by 31 August and the Audit Committee is required to approve the audited accounts by 30 November.

The Statement of Accounts are subject to review by external independent auditors, Grant Thornton who intend to issue an unqualified audit opinion for both the Statement of Accounts and the Value for Money conclusion for 2019/20.

2. Issues for consideration

- 2.1** Members are recommended to approve;
- The audited Statement of Accounts for 2019/20 (**Appendix A**);
 - The Letter of Representation for 2019/20 (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 Council's Value for Money (VfM) judgment (**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 Council'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 2020 and also the income and expenditure for the financial year 2019/20. 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 1 July to 11 August 2020.
- 3.4** The Council's external auditors, Grant Thornton, started their detailed examination of the Statement of Accounts on 1 July. 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 completion of the audit of the Whole of Government Accounts (WGA) submission. This delay is unavoidable due to the timing of the issuing of the WGA toolkit by HM Treasury and WGA submission timetable. Work is currently underway to submit a draft WGA return by the 31st September submission deadline. A final audited WGA return must be submitted by no later than 31st December 2020. The Council is working with Grant Thornton to ensure the final audited submission is submitted by the deadline.

This Committee will be notified on receipt of the final Audit Certificate.

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 Council'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 Council has seen increased scepticism and challenge from Grant Thornton, resulting in more robust audit testing. This is not unique to Somerset; it is a national trend driven by the Financial Reporting Council (FRC) expectations (referred to as 'raising of the quality bar') of improved financial reporting from organisations and the need for auditors to demonstrate increased challenge.

The current COVID-19 pandemic has also had a significant impact on the work undertaken by Grant Thornton this year, as the pandemic has led to unprecedented uncertainty in financial and property markets.

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 July 2020.

4.4 The outbreak of COVID-19 has impacted global financial markets and property values. Due to the estimation processes inherent in valuation reporting, property valuers have had to consider whether the current environment had led to a significant drop in market prices. To provide the reader of our accounts with an indication of the potential size of the impact from the UK Governments extensive lockdown programme, a sensitivity analysis was included in Note 4 of the draft accounts. This assessment was based on reasonable assumptions, using valuers experience and market evidence. Where available, reference was also made to professional bodies notifications and the printed press.

On reviewing this disclosure, and the associated sensitivity analysis, Grant Thornton felt from an audit perspective material uncertainty existed and recommended that our accounts disclosed the potential for material uncertainty on property valuations.

Although the sensitivity analysis was based on a combination of valuer experience and external evidence, we accept that less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. The disclosure in Note 4 around the impact of COVID-19 on property valuations has therefore been amended to ensure the potential for material uncertainty is made clear to the reader.

As it is currently not possible to accurately predict the longevity and severity of the impact of COVID-19 on the economy, values in the accounts continue to be based on the situation prior to COVID-19, on the assumption that values will be restored when the real estate market becomes more fluid. The potential for material uncertainty has therefore not impacted on the property values reported.

- 4.5** During audit testing, it was discovered that a small number of asset disposals had been misreported in the accounts. The disposals were for small pockets of land where the sale was believed to have taken place in 2020/21 when on further investigation it was discovered the sale had been completed in 2019/20. As this error was not material, the assets omitted from the disposal calculation will be included in the 2020/21 disposal calculation, so the 2019/20 accounts have not been restated.
- 4.6** During audit testing, it was discovered a small number of capital accruals had been processed for completed capital works charged up to the middle of March rather than the end of March. As this error is partially offset by the asset disposal audit finding in paragraph 4.5, the 2019/20 accounts have not been restated. The additional capital charge will be included in the 2020/21 accounts.

It was also found that a small number of asset valuations were overstated due to a formula error in the valuers supporting excel worksheet. The worksheet had double-counted the increase from a change in build cost indices. As a result, the value of buildings in our draft accounts were overstated by £2.488m. This formula error has now been corrected in the valuer's worksheet, and as the movement in build cost indices are considered each year, the value of the overstated assets will be corrected as part of the 20/21 valuation cycle.

- 4.7** The main audit fee payable to Grant Thornton during 2019/20, as reported in Note 20 – Fees for External Audit Services, did not include the fee adjustment of (£0.021m) as advised by the Audit Scope letter in February 2020. As the misstatement is immaterial, there has been no adjustment made to the Comprehensive Income & Expenditure Statement but Note 20 has been amended to ensure the accuracy of this statutory disclosure.
- 4.8** Details of all other account amendments can be found in Annex 1.
- 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** The Governance Board actively reviewed the AGS 2018/19, External Audit Value for Money Opinion 2018/19, Value for Money action tracker and Strategic Risk Register as part of preparing the AGS 2019. A governance dashboard was developed and used as a regular tool for reviewing progress with outstanding actions and escalating any matters where necessary to the Senior Leadership Team.

The Governance Board developed the new format and approach for the AGS 2019/20 including the new Corporate Governance Code which provides the key evidence on assurance of robust internal control. Specific areas for ongoing review are set out in the AGS 2019/20 and include:

- Sustainable financial position
- Local Governance Reorganisation
- Covid 19 emergency response
- Brexit - managing impacts

- 6.3** The conclusions from the AGS 2019/20 are that the Council still has a strong governance framework in place, and that the Council can demonstrate compliance.

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 Council 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 2018/19 was that, with the exception of its arrangements for ensuring sustainable resource deployment, the Council did have arrangements in place to ensure VfM in the use of its resources. This 'except for' VfM conclusion recognised there was still much to do within the Council to return it to a fully sustainable financial position and it was critical that continued effort was directed to ensuring the positive trajectory over the previous 12 months continued.
- 7.3** To recognise the importance of these actions, the recommendations for improvement was turned into a VfM tracker where actions are recorded and tracked through JCAD (the Councils risk management tool). This tracker outlined improvements mainly to budget monitoring and the MTFP which have continually improved.
- 7.4** There has also been significant work on improving the level of reserves that the Council holds, and being clear around the reserves held by SCC on behalf of others. All SCC negative reserves have been successfully addressed and eradicated.

The analysis of Reserves now clearly identifies General and Earmarked reserves which are the Council's with any reserves held on behalf of others being clearly and separately identified. The Council's earmarked reserves have notionally been broken down into Resilience Reserves and other reserves.

- 7.5** The level of General Fund Reserve was increased as part of the 2019/20 budget setting process. The level was reviewed when setting the 2020/21 budget and compared well with other similar authorities using the CIPFA Resilience Index.
- 7.6** **Grant Thornton have concluded their 2019/20 VfM review, and acknowledged the continued progress made by the Council. The Council has been able to demonstrate that proper arrangements are now in place for securing economy, efficiency and effectiveness in its use of resources.**

In recognition of the significant progress made by the Council over the last two years and the current financial position, Grant Thornton have issued an unqualified VfM conclusion for 2019/20.

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** 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 (17 June 2020) - 2019/20 Revenue Budget Outturn Report; and 2019/20 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
45	Accounting Policy No.13	Land & Buildings are measured at Current Value rather than Fair Value, so the wording has been amended.
17	Annual Governance Statement	A section has been added to the Statement to identify COVID-19 as an emerging risk.
59; 118; 131 and 133	Balance Sheet; Note 34 (table 1); Note 38 and Note 41.	Receipts in Advance were misclassified as Revenue Grant Receipts in Advance. The current and long-term split (representing the time it would take for the receipts in advance to be recognised) was also misstated so the amounts have been corrected.
65	Note 3	Surplus Assets and School Governing Body critical judgements were deemed not material enough to require separate disclosure, so were removed from the note.
67	Note 4	<p>The impact of COVID-19 on property valuations disclosure has been amended to ensure the potential for material uncertainty is made clear.</p> <p>The uncertainty surrounding the estimation of school's property asset recognition and the RPI indices used to calculate future PFI costs, was deemed not material enough to require separate disclosure, so were removed from the note.</p>
93	Note 20	The main audit fee payable to Grant Thornton during 2019/20, as reported in Note 20 – Fees for External Audit Services, did not include the fee adjustment of (£0.021m) as advised by the Audit Scope letter in February 2020.
99	Note 24 - Capital Commitments	<p>The value of commitments has been amended to the £357.881m reported to Full Council in February20.</p> <p>The list of commitments has also been amended to ensure the total commitment identified in the list totals £46.422m.</p>
100	Note 24 - Revaluations	The table has been amended to ensure the carrying value of all Surplus Assets are reported as being held at Current Value.
120	Note 34 (table 4)	PWLB fair values reported in the Financial Instrument disclosure notes were calculated using redemption rate, rather than market rate. The fair values reported should have been lower (£211.525m) than the

		£225.916m disclosed.
122	Note 34 (table 8)	A loan (for £3m) due to be repaid in 9.6 years was rounded up to 10 years and included in the Loans due to be repaid after more than 10 years total in error. The table has been updated to include this loan in the Loans due to be repaid between 5 and 10 years.
143	Note 46	Receipts and payments for Cashflows from Investing Activities were both overstated by £0.354m so have been amended.
145	Note 49	As Guaranteed Minimum Pensions (GMP) Equalisation had already been considered under IAS19 this no longer represented a contingent liability, so reference to GMP has been removed
		Other amendments including spelling, grammar and syntax and other minor disclosures.