

APPROVAL OF ACCOUNTS 2019/20 (Update)

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Cabinet Member: Mandy Chilcott

Division and Local Member: All

1. Summary

- 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 audit of the draft statement of accounts for the year ended 31 March 2020 for Somerset County Council has still to be concluded by the external auditors, Grant Thornton UK LLP., so approval of the audited accounts by 30 November has not been possible.

The delay has arisen due to a combination of factors:

- the impact of Covid-19 on both the complexity of the audit and pace at which it can be completed; and
- the increased assurance work that auditors are required to carry out nationally with respect to pensions and asset valuations and the delays in providing sufficient evidence to support these valuations.

At the time of writing, only the assurance work surrounding asset valuations remains outstanding. This report provides an update on the progress made since the November committee meeting.

As work to provide the necessary assurance is continuing at pace, a verbal update will accompany this report to ensure Committee members are aware of the latest position.

2. Background – Delayed Audit Opinion

- 2.1** Grant Thornton provided the Audit Committee with an Audit Progress Report and Sector Update at the last committee meeting held on 19 November. In this update, the Committee were advised that the Audit Opinion had been delayed due to an outstanding query in relation to the valuation of the Council's property assets. The outstanding issue was in relation to the valuation basis used by the Council's valuers, referred to as Depreciated Replacement Cost (DRC). As the use of DRC is restricted to specialised assets where no market exists, the main area of uncertainty was on the valuation of the Council's school-related property assets (though DRC is also used for a small number of non-school-related properties).
- 2.2** Under DRC, a property assets current value is estimated at being the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. During the 2019/20 valuation exercise the Council's valuation team used cost indices to estimate the replacement cost of certain property components which were then applied to floor areas to determine an estimated value.
- 2.3** During their external review of the valuation process, Grant Thornton were unable to gain the assurance they required from one of the external indices used in the DRC calculation, as it was a historic cost rate that had been indexed to the valuation year which the Councils' valuers were unable to evidence. There was also an element of uncertainty on several floor areas used by the valuers which the Council had been unable to evidence in time for the audit opinion to be issued, as the issue was only identified late in the audit process.
- 2.4** All other audit queries have been resolved by Finance, and adjustments made to the final accounts where material. Due to the uncertainty surrounding the external DRC valuations, it has not been possible for Finance to agree any amendments with Grant Thornton until the scale of any variance can be evidenced by our in-house valuers.

3. Further Assurance Work - Progress

- 3.1** To provide Grant Thornton with the assurance they require, it has been necessary for the Council to assess the indices used during the 2019/20 valuation exercise where no evidence existed to determine whether the rate used was materially accurate. This assessment has been carried out by the Council's valuation team and will be based on the known build costs for schools in Somerset over recent years. At the time of writing this work is still on-going, so a verbal update on the progress will accompany this report.

3.2 Work is also being undertaken to ensure the accuracy of certain floor areas used in the DRC calculation. At the time of writing, the Property Service Team are carrying out a number of site inspections, and updating its records using Ordnance Survey data to ensure the floor areas incorporated into the DRC calculation are at the level of detail required (and evidencable) to provide Grant Thornton with the assurance they require to issue the Audit Opinion. This work is still on-going, so a verbal update on the progress will accompany this report.

4. Conclusion

4.1 On completion of the indices and floor area review, the impact of any amendment to the original data used in the 2019/20 valuation exercise will be assessed by Finance to determine whether a material variance exists. These findings will be discussed with Grant Thornton. If Grant Thornton are satisfied with the additional assurance work provided, and there isn't a material difference between the initial and revised valuations, it should be possible for the Audit Opinion to be issued.

4.2 If the revised valuation identifies a material variance, it may be necessary for the Council to restate the sections of the accounts effected by the change. The need for any restatement will be discussed with Grant Thornton prior to any amendments being made.

5. Background papers

5.1 Grant Thornton - Audit Progress Report and Sector Update for year ending 31 March 2020

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