

## **APPROVAL OF ACCOUNTS 2020/21**

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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 2020/21 accounts the Chief Financial Officer is required to approve the draft Statement of Accounts by 31 July and the Audit Committee is required to approve the audited accounts by 30 September.

### **2. Issues for consideration**

- 2.1** Members are asked to:
- Consider the matters raised in Grant Thornton's Audit Findings Report.
  - Approve the updated Annual Governance Statement as included within the Statement of Accounts (section 7).
  - Approve the audited Statement of Accounts for 2020/21 (Appendix A); and
  - Approve the Letter of Representation on behalf of the Council. (section 6.1 and Appendix B).

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 8).

### **3. Delayed Audit Opinion**

- 3.1** The impact of COVID-19 on both the complexity of the audit and pace at which it could be completed, and the increased assurance work the auditors are required to carry out nationally with respect to pensions and asset valuations, has meant it has not been possible to approve the audited accounts by the statutory deadline.

- 3.2** Under Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015, an authority must publish (on its website) as soon as reasonably practicable on or after that date a notice stating that it has not been able to publish the statement of accounts and its reasons for this.
- 3.3** The Council published a delay notification on its website on 30 September informing local residents of the delay, confirming the audit and issue of the audit opinion was expected to conclude in November.

#### **4. Background – Statement of Accounts**

- 4.1** 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.
- 4.2** 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 2021 and also the income and expenditure for the financial year 2020/21. A separate Statement of Accounts has been produced for the Pension Fund.
- 4.3** The Statement of Accounts was available for public inspection during the 30-working day period running from 26 July to 3 September 2021.
- 4.4** The Authority's external auditors, Grant Thornton, started their detailed examination of the Statement of Accounts on 1 August 2021. 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 January 2022.

This Committee will be notified on final receipt of the Audit Certificate and the expectation is that the committee will receive the Auditor's Annual Report (containing their Value for Money conclusion) at the January meeting, on 27 January 2022.

## **5. Statement of Accounts – Content**

- 5.1** 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.

- 5.2** There are no significant presentational changes this year.
- 5.3** This year the authority has seen a change in the audit approach taken by Grant Thornton, with increased scrutiny of the authority's accounting estimates and related disclosures. There has also been an increased scrutiny of journal postings and the evidence supporting these entries. As in previous years, there has been a significant focus on two of the largest accounting estimates (pensions liability and property valuations). This additional scrutiny has been seen nationally as a result of requests made on auditors by the Financial Reporting Council and auditing standards. 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) which raised queries on some disclosures and notes that have not been queried in past audits. The remainder of this section details the significant findings during the audit process and the subsequent changes to the accounts since they were made available to the Audit Committee in August 2021.
- 5.4** Recognition of Local Enterprise Partnership (LEP) – Growing Places funding  
This funding was transferred to the Council from Devon County Council, in August 2021, as part of strengthening the LEPs assurance framework and following directive from the Department for Business, Energy and Industrial Strategy (BEIS). This grant funding was awarded to Devon County Council in 2011 and was designed to create a sustainable revolving infrastructure fund for investment to unlock further economic development and leverage private investment.

All decision making on the use of this fund is made by the LEP with the Council acting in an agency role. Prior to the audit, this funding had been treated as 'non-county' and not reported in the authority's accounts, but during the audit technical review, the authority was advised that as agent for this fund, the Council was required to recognise the cash collected (£6.713m as at 31 March 2021) and a matching creditor (to the LEP) in its Balance Sheet. No other transactions are reported in the authority's accounts, and only the Balance Sheet and Cashflow Statement (along with their associated notes) were impacted by this finding.

### **5.5** Cash and cash equivalents – Recognition of bank overdraft

The authority's bank overdraft as at 31 March 2021 was reported as part of the Cash & Cash Equivalent value in the unaudited accounts Balance Sheet, as the CIPFA Code guidance confirms that overdrafts are cash where they are integral to cash management (which was the case for the authority's overdraft). However, during the audit technical review the authority was advised this part of the Code was only relevant to the Cash Flow Statement.

To ensure compliance with the Code, the authority has restated its Balance Sheet (and associated notes) to recognise the overdraft (£13.318m) separately from Cash & Cash Equivalents.

### **5.6** Grant Income - Re-classification of Government grantor

During a review of the authority's grant income note (Note 22), it became apparent the unaudited accounts had classified a number of capital and revenue grants in error. The error (£4.758m) had arisen from a misstatement in the working paper used to classify certain Government capital grants. The total of the grant income reported was correct, but the name of the grantor had been reported incorrectly.

As the total grant income was correct, no change was required to the Comprehensive Income & Expenditure Statement but Note 22 has been reclassified to ensure the grantor classification was in line with the allocations awarded.

### **5.7** Capital Grant Receipt In Advance – reclassification of Government grantor

During a review of the authority's Capital Grant Receipt In Advance note (Note 41), it became apparent the working paper misstatement (in 5.6) had also impacted on the grantor classification in Note 41. As with 5.6, the value of the capital grant receipts in advance reported in the authority's balance sheet was correct, but the grantor classifications were misstated.

As the value of the receipts in advance were correct, the only adjustment required was to Note 41. No other note, or primary statement was affected by this misstatement.

### **5.8** The review of in-year property valuations identified several floor area discrepancies in the asset samples. The errors identified represents a potential understatement of £1.702m (£5.906m when extrapolated). The review also identified the known issue from last year surrounding the 'Abnormal' element of DRC valuations (totalling £3.143m), where the valuers were unable to evidence the valuation. This issue will be addressed over the next three years as the affected assets are formally revalued. Current workloads and resource restrictions are preventing the valuers from evidencing these assets any sooner.

This finding has not been adjusted in the final accounts, as the error is not material, and the value has been extrapolated.

**5.9** The authority's depreciation charge on its Infrastructure (Highways) asset during 2020/21 was calculated based on the weighted average of the asset components (such as carriage ways and street furniture) useful lives. During a review, audit confirmed the Code of Practice required the calculation to be based at a component level rather than grouped as a weighted average. As depreciation was potentially understated by £8.449m, the value of Infrastructure assets will have been overstated by the same amount.

This finding has not been adjusted in the final accounts, as the error is not material, but the depreciation process will be amended in 2021/22 to ensure compliance with the Code moving forward.

**5.10** A few minor errors/omissions were also identified during the audit review. The technical review also requested more clear narrative around the accounting treatment for the Council's relationships with external bodies, and the critical judgements made when applying its accounting policies. These amendments, along with the audit findings reported above, have been included in Annex 1 (below).

## **6. Letter of Representation**

**6.1** 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.

## **7. Annual Governance Statement**

**7.1** The draft Annual Governance Statement (AGS) was approved by the Audit Committee at its meeting in July. 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.

**7.2** The Governance Board actively reviewed the AGS 2020/21, tracking actions against a Healthy Organisation Governance Scorecard. A summary of significant issues that the Board has overseen is set out on page 23 of the Annual Governance Statement and these relate to:

- The Council's financial position
- Local Government Reorganisation
- Healthy Organisation audit actions
- Covid 19 response

**7.2** In accordance with the CIPFA disclosure requirements, following formal approval of the Annual Governance Statement, the Governance Board will develop an Action Plan for 2021/22 aimed at further strengthening the Council's governance. Many of these will already be known and on-going actions, such as the continual review of the Constitution and key financial and organisational policies, especially in the light of Local Government Reorganisation proposals.

**7.3** The main purpose of the Annual Governance Statement is to provide the necessary assurance that a reliable framework was in place for the financial year that aligns to the Statement of Accounts.

However, best practice suggests that the Annual Governance Statement should also reflect the unique features and challenges of the County Council, and that it should therefore anticipate known and potential governance challenges ahead. This year's Statement includes the following significant challenges ahead for 2021/22:

- Sustainable financial position
- Local Governance Reorganisation
- Covid 19 emergency response
- Integrated Care System
- SEND Improvement Plan

By doing so, it highlights these areas which could present significant corporate risks during 2021/22 and future financial years. The Committee can be reassured that mitigations and management actions are already underway on these matters.

## **8. Value for Money (VFM)**

**8.1** On 1 April 2020, the National Audit Office (NAO) introduced a new Code of Practice which came into effect for the 2020/21 audit year. The Code introduced a revised approach to the VFM audit.

There were three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improving economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the previous 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on significant weaknesses in arrangements identified during the audit.

**8.2** The Code requires auditors to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria (i.e. financial sustainability, governance and improving efficiency and effectiveness).

**8.3** In their audit plan, Grant Thornton's risk assessment focused on three key areas:

- Financial Sustainability;
- Children's Services (SEND); and
- Local Government Reorganisation.

**8.5** The VFM review has still to be concluded, so Grant Thornton is not in a position to issue the Auditor's Annual Report. The report is expected to be issued by 31<sup>st</sup> January 2022. The risk assessment element of the VFM audit work has been completed (details of the full assessment can be found in Section 3 of the Audit Findings Report (available in the suite of agenda papers)). A summary of their conclusions on the three key risk areas are detailed below:

### **8.6** Financial Sustainability

The report acknowledged that despite the uncertainty regarding funding, the Council has robust arrangements in place for delivering financial sustainability. This is based on an improved track record in recent years that has led to achievement of budgets and delivery of planned savings.

## **8.7** Children's Services (SEND)

The report acknowledges that the Council had taken positive action to address the concerns raised by Ofsted. Following the inspection report a working group was established with the CCG and a written statement of action was produced which set out the 9 priority areas of focus. This written statement had been approved by Ofsted in November 2020.

The review also highlighted that positive action had been taken in each of the priority areas that had been openly and transparently set out on the Council's website. Based on the review, the report had not identified any risks of significant weakness in arrangements.

## **8.8** Local Government Reorganisation

Based on the review and the work undertaken, to date, the report had not noted any risks of material weakness in arrangements. However, due to the significance of this reorganisation and the potential impact on both financial sustainability and service delivery and performance, this would remain an area of focus as arrangements evolve.

The report recommended that the savings generated from re-organisation are clearly monitored and reported alongside the costs. This is to ensure that both the costs and benefits are delivered in line with the business plan. Furthermore, it was recommended that as part of the 2022/23 budget setting process that the joint medium term financial challenge be explored and fully understood.

## **9. The next steps**

**9.1** 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.

**9.2** Once reached, the Value for Money conclusion will be reported back to this committee, expected to be 27 January 2022. When received the audit certificate will be added to the audited Statement of Accounts which will be published and made available on the internet.

## **10. Background papers**

**10.1** Cabinet (21 June 2021) - 2020/21 Revenue Budget Outturn Report; and 2020/21 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:

<b>Page</b>	<b>Statement/Note</b>	<b>Description</b>
<b>Adjusted Misstatements</b>		
73, 133 and 156	Balance Sheet, Note 34 and 44.	To ensure compliance with the Code, the authority has restated its Balance Sheet (and associated notes) to recognise the overdraft (£13.318m) separately from Cash & Cash Equivalents
73, 75, 133, 145 and 156.	Balance Sheet, Cashflow Statement, Note 34, 38, 44 and 45.	The authority was advised that as agent for the LEP Growing Places Fund, the Council was required to recognise the cash collected (£6.713m) and a matching creditor (to the LEP) in its Balance Sheet, Cashflow Statement (and associated notes).
<b>Misclassification and disclosure changes</b>		
110	Note 22	The unaudited accounts had classified a number of capital and revenue grants in error. The error (£4.758m) had arisen from a misstatement in the working paper used to classify certain Government capital grants. The total of the grant income reported was correct, but the name of the grantor had been reported incorrectly. The grantor classification has now been corrected.
146	Note 41	During a review of the authority's Capital Grant Receipt In Advance note, it became apparent the working paper misstatement (above) had also impacted on the grantor classification for the receipts in advance. The value of the capital grant receipts in advance reported in the authority's balance sheet was correct, but the grantor classifications were misstated. The grantor classification has now been corrected.
109	Note 20	Grant claim audit costs of £0.005m added to the disclosure that had been omitted in error.
116	Note 24 (Revaluations).	The Asset Held for Sale column has been removed to ensure the note agrees back to Note 24: Property, Plant & Equipment.
116	Note 24 (Revaluations).	Three property assets not formally valued were reporting in the incorrect valuation year line. The impact in the table total was net nil, but the valuation year line has been restated to reclassify the £9.511m to the years where each asset was last revalued.
167	Note 52	As no group accounts were compiled, the group account section has been reclassified as a note to the accounts.
126	Note 30	Indexed payments under the PFI contract were

		estimated as £179.358m in error due to a formula issue in the working paper, The indexed payments have been amended to £179.375 (an increase of £0.018m).
113	Note 24	The revaluation line in the depreciation/impairment section of the note has been expanded to identify the amounts written out to the Revaluation Reserve and the amounts written out to the Surplus/Deficit on the Provision of Service in the CIES.
131	Note 33	Minimum revenue payments have been split out to identify the minimum revenue provision (£3.182m) and other revenue payments (£3.616m) separately.
138	Note 16 – Integrated Community Equipment Service	Income and expenditure were both overstated by £0.085m. The impact was net nil, but the amounts have been restated to ensure the correct amounts were disclosed.
144	Note 37	The loss allowance has been expanded to identify the amount of allowance relating to local taxpayers separately from the other allowances.
136	Note 34: Short/Long Term Investments	The disclosure has been amended to disclose the material investments held.
72	Movement in Reserves	A column has been added to identify the total General Fund reserve.
79	Note 3	Critical judgements deemed non-critical have been removed from the disclosure.
Various	Various	Other amendments including spelling, grammar and syntax and other minor disclosures.