

## Statement of Accounts 2019-20

To: Audit and Accounts Committee

Meeting Date: 24 November 2020

From: Chief Finance Officer

Electoral division(s): All

Forward Plan ref: Not applicable

Key decision: No

Outcome: This report presents the audited (subject to outstanding items), revised Cambridgeshire County Council (CCC) Statement of Accounts 2019/20. Also included are the Annual Governance Statement and Pension Fund accounts. The Accounts are provided as Appendix A to this report.

Recommendation: The Committee is asked to review and comment on the revised Statement of Accounts and delegate responsibility to the Chairman of the Audit and Accounts Committee and the Chief Finance Officer to approve and sign the final audited set of accounts once finalised.

### Officer contact:

Name: Ellie Tod  
Post: Strategic Finance Manager  
Email: Eleanor.tod@cambridgeshire.gov.uk

### Member contacts:

Names: Councillor M Shellens  
Post: Chair  
Email: shellens@waitrose.com

# 1. Background

- 1.1 The annual Statement of Accounts is the financial representation of all activities that the Council has been directly or indirectly involved with, over the course of the 2019/20 financial year. The publication of the Statement of Accounts is an essential feature of public accountability and stewardship, as it provides an annual report on how the Council has used the public funds for which it is responsible.
- 1.2 The Accounts are prepared under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2019/20, which is based on International Financial Reporting Standards (IFRS) adapted for public sector use. The signing, approval and publication of the Accounts is set out in Section 9 of the Accounts and Audit Regulations 2015.
- 1.3 This version of the Statement of Accounts replaces the draft version that was presented to the Committee for review on 30 July 2020 and should be considered in conjunction with the ISA260 report from EY, the Council's external auditors, in respect of the audited accounts.

# 2. Statement of Accounts 2019/20

- 2.1 The Statement of Accounts is comprised of the following sections:
  - The Narrative Statement – required by the Code and provides a summary of the most significant matters reported within the accounts, and of the Council's financial position. It is intended to outline the overall context within which the Council is operating by providing commentary on the Council's priorities, its performance in 2019/20 and the inclusion of a summary of the medium term outlook and approach to value for money. This year, it also includes information about the impact of Covid-19 on the Council's accounts.
  - Statement of Responsibilities – provides detail of the formal responsibilities assigned to the Council and the Chief Finance Officer in respect of the Statement of Accounts.
  - The Core Financial Statements – provide a financial snapshot as at 31 March 2020 of the Council's position and activity during the preceding year. This is comprised of:
    - Comprehensive Income and Expenditure Statement (CIES) – reports the net cost for the year of all functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.
    - Movement in Reserves Statement (MIRS) – shows the movement in year on the different reserves held by the Council. The reserves are analysed into 'useable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'.

- Balance Sheet (BS) – presents the value of the Council’s current and non-current assets and liabilities as at 31 March 2020, with the bottom line effectively being the net worth of the organisation.
- Cash Flow Statement – summarises the inflows and outflows of cash arising from transactions with third parties; this analysis shows how the Council generates and uses cash and cash equivalents.
- Disclosure notes – provide further supporting details on aspects of the accounts, including the Council’s accounting policies. The notes are largely defined by the Code of Practice.
- Group Accounts – the Council is required to prepare Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates, and / or joint ventures. The Group Accounts reflect the activity of any such arrangements, where appropriate to do so, in addition to the Council’s ‘single entity’ accounts.
- Pension Fund Accounts – details the financial activities relating to the pension fund, together with a snapshot of the assets and liabilities of the fund as at 31 March 2020.
- Glossary – the accounts inevitably includes a number of technical terms; this section provides an explanation of their meaning.
- Annual Governance Statement – summarises the extent to which the Council is complying with its Code of Corporate Governance and details, as appropriate, any significant actions needed to improve the governance arrangements in the year ahead. The final statement is signed by the Chief Executive and the Leader of the Council.

2.2 There is one significant change in accounting treatment for 2019/20. The Council appointed a new firm, Bruton Knowles LLP, for 2019/20 to undertake the Council’s asset valuations. Following discussion with Bruton Knowles, the valuation technique for school assets has changed so that these assets are now valued on a Modern Equivalent Asset basis (i.e. on the basis of how an asset would be replaced to provide the required service, rather than valuing what is physically in existence). This brings the Council’s valuations more closely in line with the guidance issued by The Chartered Institute of Public Finance and Accountancy (CIPFA) and Royal Institute of Chartered Surveyors (RICS).

### 3. Changes between draft and revised accounts

3.1 The most significant adjustments are summarised below. These items have been adjusted in the revised set of accounts presented with this report. None of these adjustments have affected the outturn position of the Council for 2019/20, as they reflect technical accounting adjustments.

- 1) Classification of interest expense (£1.7m movement within the CIES) – as a result of using incorrect expenditure coding.

- 2) Classification of creditors (£4.7m movement within the BS) – payment to clear a pay as you earn (PAYE) taxation creditor was incorrectly posted to short-term debtors instead of short-term creditors.
- 3) Classification of grant income (£14.8m movement within the CIES) – one account code was being used for two separate purposes which actually need to feed into two different places in the accounts. Moving forward, the income currently on this code will need splitting between two different codes in order that it is mapped to the correct location.
- 4) Classification of short-term and long-term loans (£64.7m movement within the BS) – as a result of incorrect classification, and also coding. This is still to be confirmed with EY.
- 5) Correction of prior year unadjusted audit differences in relation to Street Lighting PFI (£1.2m between the CIES and BS) – whilst this was identified during the 2018/19 audit, on review by officers it was not clear that the adjustment was actually required. Further review and clarification during the 2019/20 audit has confirmed that it is necessary.
- 6) Correction of long-term debtor balances (£2.4m movement between the CIES and BS) – reviewing balances as part of the audit identified that two balances in relation to the Guided Busway should have previously been cleared, however the income recognition had incorrectly been duplicated instead. This is still to be confirmed with EY.
- 7) Pensions adjustments (£5.0m movement between the CIES and BS) – the impact of the McCloud consultation required a revised actuarial report to be commissioned; as a result, the report was also able to include the actual asset performance, as opposed to the projected performance included within the original report. The impact of this has therefore been adjusted for in the accounts.

3.2 The following adjustments have been identified but have not been adjusted as they are immaterial and would impact upon the revenue or capital outturn position:

- 1) Overstatement of Adult Social Care payments in advance (£1.2m movement between the CIES and the BS) – an error was made in the calculation of accrual, which based the adjustment on one week instead of 4 days.
- 2) Understatement of provisions (£2.6m movement between the CIES and the BS) – the draft report on the annual self-insurance review is not produced until after the draft accounts have been prepared, therefore the figures have to be based on the recommended provision and earmarked reserve position from the prior year.
- 3) Understatement of capital accruals (£2.5m movement within the BS) – it has been identified that accruals have not been processed for the Compulsory Purchase Orders for one capital scheme. Any outstanding accruals at the end of 2020/21 for this scheme will now be processed.

## 4. Matters outstanding

4.1 The following matters are the main areas outstanding at the time of writing this report.

- Property, Plant and Equipment (PPE) – the impact of Covid-19 on both valuations and furloughing of key contacts, the move to a new external valuer and the additional difficulties in obtaining information due to working away from the office have all contributed to additional work and delays in this area. A significant amount of work has been completed, however there are some outstanding queries around the sample of valuations, the material uncertainty disclosure in the accounts and the valuations of the Council's investment properties. It is likely that further adjustments will be required once this work has concluded.
- Going Concern Assessment – the current circumstances mean that in order to ensure that the assessment is as current as possible, this could not be provided to EY until the latter stages of the audit. It has now been submitted, along with the relevant working papers, and is currently being reviewed as part of the auditor's quality assurance. Across all sectors, there is additional attention to "going concern" as a result of the emphasis on the accounting standards, and this is compounded by the exceptional circumstances of the pandemic and the impact this has on the economic and social conditions facing all entities, not least local authorities.
- Payroll testing – delays have been created by lack of capacity in the payroll team to provide the information required; it is not anticipated that there will be any issues with concluding this work, or any adjustments required as a result.
- Group Accounts – the Council's wholly owned company, This Land, have a different accounting date to the Council. Whilst this provides the benefit of being able to include the completed This Land accounts within the Council's draft Group Accounts, it does require additional audit work by This Land's auditors regarding the period between the two balance sheet dates (31 December 2019 and 31 March 2020). This work is nearly complete, however EY are waiting for the final report from This Land's auditors and the Council are waiting for the company's adjusted management accounts to include within the Group Accounts.
- Post Balance Sheet Events – this work needs to be completed and audited as close to the audit signing date as possible.

Once all audit work has been concluded, any further identified adjustments will need to be incorporated into the Statement of Accounts. The document will then be subject to final review and agreement by EY.

- 4.2 EY have provided a draft of their request to management for a letter of representation; this is included in the agenda for this meeting towards the end of the audit results report. The Council envisages being able to provide this as requested as the work on the audit reaches its conclusion.
- 4.3 The statutory deadline for preparing and publishing a signed set of accounts for 2019/20 is the 30 November 2020; the Council is endeavouring to meet this deadline, however it is

aware that one or two areas may take slightly longer to conclude. As you would expect, the external auditor will not be prepared to sign the accounts until their review has completed, irrespective of the deadline. Once the work on the above areas has finished, the final signed accounts and management representation letter will be provided to EY. This report outlines the limited areas remaining and summarises the issues for the Committee's attention this year as a result of the audit; remaining changes will be of a technical nature. On that basis, in common with previous years, it is recommended to committee that agreement of the final version of the accounts to be signed and submitted is now delegated to the Chairman of the Committee and the Chief Finance Officer.

4.4 The CCC Finance team (outside of LGSS) assumed responsibility for financial accounting in December 2019 and despite the shorter preparation time available due to the significant delays with completing the 2018/19 accounts, strong progress has been made with the quality of the accounts produced and aiding the conduct of the audit. The issues for continuous improvement into next year will be familiar to the Committee and include:

- Property Valuer consistency – 2020-21 will see the same external valuer used for a second consecutive year; this has not occurred for a number of years. It will also be the second year of using the Modern Equivalent Asset basis.
- Property/Assets – quality of data – audit sampling has identified that there continue to be issues with the quality and robustness of the information held on property assets.
- Process/ system issues – this was the first year that Treasury accountancy was completed by the CCC team, and the second year of using ERP Gold for fixed asset accounting. Utilisation of these areas will continue to improve into next year and provide further opportunities for pre-audit quality procedures.
- Reliance on third parties – production of the accounts and the successful audit relies on timely provision of information by teams across the Council, its partners and external organisations. The interface with Payroll will be particularly important next year, especially as this moves from LGSS to one of the lead authorities in Future Northants.

## 5. Value for Money Conclusions

5.1 The auditor has not yet begun the Value for Money review for 2019/20 as the conclusions for 2017/18 and 2018/19 are still outstanding along with unresolved objections on the accounts. BDO LLP, the Council's previous auditors, have now replied formally to the letter sent by the Chairman of the Audit and Accounts Committee in November 2019, setting out the status of work on the 2017-18 Value for Money Conclusion and 2017 and 2018 objections, and timescales to complete this work; it is anticipated that this will be reported to the January 2021 Audit & Accounts Committee. The full letter has been forwarded to all Members of the Committee. Once this work has concluded, EY will then be able to schedule the work required for the 2018/19 and 2019/20 Value for Money Conclusions.

## 6. Alignment with corporate priorities

- 6.1 A good quality of life for everyone  
There are no significant implications for this priority.
- 6.2 Thriving places for people to live  
There are no significant implications for this priority.
- 6.3 The best start for Cambridgeshire's children  
There are no significant implications for this priority.
- 6.4 Net zero carbon emissions for Cambridgeshire by 2050  
There are no significant implications for this priority.

## 7. Significant Implications

- 7.1 Resource Implications  
There are no significant implications within this category
- 7.2 Procurement/Contractual/Council Contract Procedure Rules Implications  
There are no significant implications within this category.
- 7.3 Statutory, Legal and Risk Implications  
There are no significant implications within this category.
- 7.4 Equality and Diversity Implications  
There are no significant implications within this category.
- 7.5 Engagement and Communications Implications  
There are no significant implications within this category.
- 7.6 Localism and Local Member Involvement  
There are no significant implications within this category.
- 7.7 Public Health Implications  
There are no significant implications within this category.

Have the resource implications been cleared by Finance? N/A

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement? N/A

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law? N/A

Have the equality and diversity implications been cleared by your Service Contact? N/A

Have any engagement and communication implications been cleared by Communications?  
N/A

Have any localism and Local Member involvement issues been cleared by your Service Contact? N/A

Have any Public Health implications been cleared by Public Health? N/A

## 8. Source documents

### 8.1 Source documents

a) Code of Practice 2019-20

b) Revised Statement of Accounts 2019-20

c) Statement of Accounts working papers

d) BDO letter (Audit and Accounts Committee January 2020) and response from BDO

### 8.2 Location

Octagon First Floor, Shire Hall, Cambridge