Agenda Item No. 9

STATEMENT OF ACCOUNTS – ACTION / IMPROVEMENT PLAN

To:	**Audit and Accounts Committee**
Date:	24 March 2020
From:	Head of Finance
Electoral Division(s):	All

Purpose:

To provide an update on:

- The conclusion of the 2018/19 Statement of Accounts for the Council
- Planning for the 2019/20 Closure of Accounts and production of the Statement of Accounts.

Recommendation:

The Audit and Accounts Committee is asked to:

A) Note and comment on the contents of the report

B) Agree to schedule an additional committee on 30th October 2020, in order to sign the 2019/20 accounts

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1. BACKGROUND

1.1 This report provides an update on the paper reviewed by Audit & Accounts Committee in January 2020 regarding lessons learnt from the 2018/19 Statement of Accounts process and improvements that can be made for the 2019/20 process in order to ensure a controlled, timely completion of the process and delivery of a set of accounts.

1.2 At the time of the last Committee, the 2018/19 Statement of Accounts were close to completion, but had not been signed off. This was creating additional pressures on the 2019/20 process, which has been somewhat delayed whilst the 2018/19 process was concluded.

1.3 Further updates on the progress of the 2019/20 accounts will be reported to the Committee at future meetings.

2. UPDATE ON THE 2018/19 STATEMENT OF ACCOUNTS

2.1 The 2018/19 Statement of Accounts was signed off on 14th February 2020. Whilst several months late, this was a significant achievement, following months of dedicated hard work by the Closedown team in challenging circumstances. The final accounts can be located on the Council's website here: https://www.cambridgeshire.gov.uk/council/finance-and-budget/statement-of-accounts

2.2 As part of that process, the Council's external auditor, Ernst and Young (EY), has also issued an ISA260 addendum update report which can be found in Appendix A. There were some changes between the ISA260 report last reviewed by Committee in October 2019 and the updated report, as follows:

- In the Executive Summary, EY have updated the 'Status of the audit' section: "We have now completed our audit of Cambridgeshire County Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Plan."

- One audit difference previously included as having been adjusted, is now included as an unadjusted difference. This related to the incorrect classification of £1.442m of capital grant income as capital grants received in advance. This audit difference is linked to the unadjusted difference below.

- One additional unadjusted audit difference has been included in the updated report relating to £4.581m of grant income. The report states "Our testing identified that £4.581 million of Grant Income was not included within Note 31. This amount was originally within the draft financial statements submitted for audit, but the subsequent revisions to the financial statements removed it. Our testing of the original note disclosure supports it inclusion and the Council has been unable to explain why it was removed." However, the grant income was removed from the accounts after an extensive review by officers resulting in a view that it was not possible to evidence whether or not this grant income should be included without line-by-line investigation and analysis of tens of thousands of accounting entries. This is a highly unusual situation and results from a very large number of entries and corrections being posted following the implementation of ERP Gold and the associated new chart of accounts. Given that a fully balanced set of financial statements was achieved without recognition of the income and officers had concluded an additional review of the balance sheet, the decision was taken that this audit difference should not be adjusted for in the accounts.

- EY confirm in the updated report that the unadjusted audit differences are not material: "The aggregated impact of unadjusted audit differences is £7.284 million. We concur with management's assessment that the impact is not material to the financial statements as a whole."

- The updated report includes an additional section 'Other Audit findings to consider for future years accounting treatment'. EY have recommended that the Council carry out a review of the Minimum Revenue Provision (MRP) calculation in advance of the 2019/20 closedown process to ensure that material errors are not made in future years. EY have highlighted particular areas that they consider may cause errors in future years: funding of Assets Under Construction; MRP charges on share equity; and MRP charges on Investment Properties.

3. PREPARATION FOR 2019/20

3.1 As reported previously, up to January 2020 the Closedown team has largely been focused on completing the process for the 2018/19 accounts. However, as we entered the last quarter of the 2019/20 financial year, the focus on closedown for 2019/20 has inevitably increased.

3.2 In order to improve the process for 2019/20 to ensure the underlying data is more accurate and therefore enable the process for preparing both the draft and final accounts to be clear and efficient, the Corporate Finance team have compiled an Improvements Schedule, listing all of the areas of work where measures can be put in place to support a more efficient year-end process.

3.3 The team has been working through this schedule; of the 40 areas due to have commenced prior to year-end, progress can be summarised as follows:

- 5 areas have been completed
- 30 areas are in progress and are at varying levels of completion (some have only recently been started, whilst others are nearly complete)
- 5 areas are yet to start, but are due to start imminently

Whilst this does not give any indication of the scope of each activity or how close some items are to nearing completion, it helps to provide some idea of the overall quantum. Please see Appendix B for an overview of these tasks.

3.4 Alongside this improvement work, the Council has also started the business as usual closedown activity in order to close the accounts (and in some cases, there are inevitably overlaps with the Improvements Schedule activity).

3.5 EY have confirmed that there will be no interim audit this year, other than system walk-throughs. Whilst this is welcome in allowing the Council to focus on the preparation of the accounts over the next two+ months, it does mean that all of the audit work will need to be completed during the main audit after the draft accounts have been published on 31st May 2020.

3.6 EY have confirmed that the Council's audit period will be one long block from 15th June to 7th August 2020. This is also helpful timing, as it will allow us two weeks between completion of the draft accounts and the start of the audit to ensure all working papers and information requested by EY is prepared and available from day 1 of the audit. However, given there is no interim audit it is still going to be a challenge to complete all of the necessary work in that timeframe.

3.7 EY have also confirmed that they will not be reporting back to audit committees for any of their clients until at least early to mid-October 2020. **Committee is therefore asked to approve an additional meeting on 30th October 2020 in order to sign off the 2019/20 Statement of Accounts.**

4. AREAS OF RISK

4.1 Asset Valuations

4.1.1 As previously reported, for 2019/20, the Council has appointed a new firm, Bruton Knowles LLP, to undertake the Council's asset valuations. As a result of this appointment and also the delay in signing the 2018/19 accounts, the process to complete the valuation programme did not start as early as would be ideal; however site inspections for the full valuations have now all been completed. A significant number of the valuations have also been completed, in particular for the more complex sites, leaving a handful of more straightforward valuations to complete. Officers have started to undertake the quality assurance process on the valuations received to date and are now aiming to have all valuations completed, returned and checked by 31st March. This is two weeks later than originally envisaged, however, the Closedown team are confident this is manageable in context of the overall closedown timetable, as long as the timescales do not slip significantly further. However, this is still a tight deadline, therefore to minimise the risk of further slippage, the Property team have been requested to keep in regular contact with Bruton Knowles over the next 10 days, to push for completion of the work and allow sufficient time for the validation process.

4.1.2 The number of valuations requested this year has increased as a result of the Council requesting all Depreciated Replacement Cost valued assets to be valued on a desktop basis (except if already being valued on a full basis as part of the rolling programme of valuations). This has required additional work as part of the valuation and validation process, but should remove the need for a material misstatement adjustment during the preparation of the accounts, and therefore provides an overall benefit to the process of producing the accounts. However, until the valuation process is finalised and the materiality assessment is undertaken, we cannot be certain that an adjustment (and the extra work that entails) will not be required.

4.1.3 In addition to a greater number of valuations, the process for undertaking the valuation of school assets is also changing so that these assets are now valued on a Modern Equivalent Asset basis. This is to bring 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). In the long run, this will likely reduce the amount of time required to undertake valuations of school assets, however it is requiring additional work for the 2019-20 accounts as the Council adjusts to the new process. At the moment, this is not foreseen to create additional delays, but there is a possibility that as we complete that additional work, it could take longer than anticipated.

4.2 ISA260 recommendations

4.2.1 As noted in 2.2, one of the areas to investigate is the Council's calculation of MRP. Whilst some elements are straight forward to review and adjust, there are some aspects that could require significant amounts of investigation and there is therefore the potential for this work not to be completed in time for the draft accounts. Whilst the team will endeavour to complete the work in time, if that is not possible then based on the 2018/19 audit, it is anticipated that the impact of any inaccuracies not adjusted for should not be materially incorrect for 2019/20. It is the cumulative impact over future years that could be material, which will not impact on the sign-off of the 2019/20 accounts.

4.3 Impact of COVID-19

4.3.1 The COVID-19 situation is changing all the time; at the time of writing this report, there have been no specific instructions from Government to adjust our working practices. The Council already utilises agile working, however this may be pushed to the limit over the coming weeks if more stringent social distancing policies are implemented by the Government.

4.3.2 Whilst the finance team are all able and familiar with remote working practices, some services may not be, particularly if faced with increased pressure on customer-facing services as a result of the virus and the measures taken to contain it. Therefore, this may impact on the speed with which the finance team can gather the information required from services to close the accounts.

4.3.3 This may be further impacted by system availability if significant numbers of staff are required to work at home, however IT are working to ensure there is sufficient capacity in the system should this be required.

4.3.4 Widespread sickness or caring for dependants could also be an issue given the tight closedown deadlines, however at the moment it is anticipated that the impact of this will be low.

4.3.5 Whilst it is not felt that the above will impact on the ability of the Council to produce a robust, accurate draft set of accounts, there is a risk that in exceptional circumstances, it will not be possible to complete them by 31st May 2020.

Source Documents	Location
N/A	