

Division(s):

AUDIT AND GOVERNANCE COMMITTEE – 22 July 2020

STATEMENT OF ACCOUNTS

Report by Director of Finance

RECOMMENDATION

1. **The Audit and Governance Committee is RECOMMENDED to**
 - (a) **Consider and approve the Statement of Accounts 2019/20 at Annex 1;**
 - (b) **Consider and approve the Letter of Representations 2019/20 for the Oxfordshire County Council accounts at Annex 3;**
 - (c) **Consider and approve the Letter of Representations 2019/20 for the Oxfordshire Pension Fund accounts at Annex 4;**
 - (d) **Agree that the Director of Finance, in consultation with the Chairman of the Committee (or Deputy Chairman in his absence), can make any further changes to the Statement of Accounts 2019/20 and letters of representation that may arise during completion of the audit.**

Executive Summary

2. The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 require the Director of Finance to publish the unaudited Statement of Accounts 2019/20 no later than 31 August 2020 and certify that they give a true and fair view of the County Council's financial position and income and expenditure for the year. This was achieved on 8 June 2020 and the unaudited accounts were published on the Council's website. The amended Regulations require the Statement of Accounts to be considered by a committee of the Council by 30 November 2020 and, following that consideration, to be approved by resolution of that committee. This report presents the accounts to the Audit & Governance Committee for consideration and approval, with the findings of the audit available in Ernst & Young LLP's audit results reports.

Statement of Accounts

3. The Statement of Accounts 2019/20 is attached at Annex 1. This version includes changes made to the unaudited accounts as agreed with the auditors as set out below and in Annex 2.
4. The accounts have been compiled in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 'Code'). An introduction to the statement of accounts is included in the Narrative Report by the Director of Finance, together with commentary on the Council's financial position and economy, efficiency and effectiveness in its use of resources over the financial year.

5. The statement of accounts contains the Expenditure and Funding Analysis note, followed by the four primary financial statements: The Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement, together with accompanying notes. The statement of accounts also includes the Firefighters Pension Fund Accounts and the Oxfordshire Local Government Pension Fund Accounts.
6. There have not been any significant changes to the preparation of the Statement of Accounts for 2019/20.

Annual Governance Statement

7. The draft accounts were authorised for issue on 8 June 2020 which enabled the Council to proceed with the external audit within the planned timeframe. The intention was also to commence the period for the exercise of public rights at that date.
8. The Accounts and Audit Regulations 2015 set out that in order for the period of exercise of public rights to begin, the publication of the statement of accounts must be accompanied by the publication of the Annual Governance Statement.
9. The public inspection period will therefore commence on 23 July, subject to the approval of the Annual Governance Statement by this committee at the meeting on 22 July.

Impact of Covid-19

10. There are three areas within the statement of accounts that have the potential to be significantly impacted by Covid-19 and are subject to increased audit focus:
 - Going concern basis of preparation
 - Valuations of Property Plant and Equipment
 - Pension Liability actuarial valuation
11. The Code prescribes that “an authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future.” The Council places reliance on this and accordingly the accounts are prepared on a going concern basis. It is normal practice for external audit to make an assessment of whether or not this is reasonable. In doing so, the external auditors also place reliance on [Practice Note 10: Audit of financial statement of public sector bodies in the United Kingdom](#), issued by the Public Audit Forum (a consultative and advisory forum of the four national audit agencies in the UK designed to provide a focus for developmental thinking about public audit). This sets out that the going concern issues can still arise in the public sector and may include situations where the public sector entity lacks funding for its continued existence.
12. The Council has incurred and is expected to incur significant additional costs and lost income as a result of Covid-19. The funding provided by Government

so far is not sufficient to meet the financial pressure. There has been significant lobbying by the local government sector setting out the immediate and medium term impact on council finances of the Covid-19 pandemic. However, the sector view has been, and remains, that funding will not be sufficient to meet costs and lost income, with a 'burden share' being expected. It is therefore appropriate to set out in the statement of accounts why, despite the current forecast shortfall in funding, the Council's accounts continue to be prepared on a going concern basis.

13. Note 1. Significant Accounting Policies will be updated to reflect the latest position reported to Cabinet and the work being undertaken to understand the financial impact in 2020/21 and into the medium term. It will also set out the level of General Balances and Earmarked Reserves which are available to support the budget, if required, in 2020/21 and future years.
14. Taking into account the level of General Balances and Earmarked reserves, it is not considered that there is a material uncertainty in respect of the Council's ability to continue as a going concern for the foreseeable future.
15. This assessment is still subject to review by the auditors. It is possible that the auditors will conclude that an Emphasis of Matter disclosure or a Material Uncertainty disclosure are required to be included in the audit report as a result of the operating environment created by the Covid-19 pandemic.
16. Note 58. Events After the Reporting Period has been updated to reflect the greater level of uncertainty around valuations of Property Plant and Equipment and Pension Fund valuations arising from changes to market conditions. Both valuations are subject to the use of assumptions by external specialists and require reliance to be placed on observable historic data and trends which may not be applicable to the current economic environment. Due to the size of the value of Property Plant and Equipment and the pension fund liability small changes to the assumptions can have a material impact on the statement of accounts. Although it should be noted that these are accounting adjustments and there would be no impact on the General Fund and therefore no impact on the Council Tax Requirement.
17. The audit team have sought specialist input from their inhouse valuation and actuarial teams to conclude these areas of the audit.

Changes to the unaudited accounts

18. Annex 2 sets out the agreed changes which have been made during the audit to the unaudited accounts published on 8 June 2020 and the rationale for the changes. Further changes may be identified during the conclusion of the audit.

Unadjusted differences

19. An unadjusted difference is reported when auditors identify a misstatement that has not been adjusted by management which falls above the misstatement materiality of £0.920m but below the overall materiality assessment of £18.4m.

20. At this stage there are no unadjusted differences to report for 2019/20. However, as the audit has not concluded there is a possibility that unadjusted differences could arise. If this is the case, the Letter of Representations must include management's rationale for not correcting the misstatement and be approved by the Audit and Governance Committee or by approved delegation.

Letters of Representations

21. Auditing standards require Ernst & Young LLP to obtain representations from management on certain matters material to their audit opinion. Separate letters of representations are required for the Oxfordshire County Council accounts and the Local Government Pension Fund accounts. The Audit & Governance Committee is required to consider and approve the letters of representations before they are signed by the Director of Finance and the Chairman of the Committee.
22. Draft Letters of Representation for the County Council and Pension Fund accounts are included at Annex 3 and 4 respectively. The draft letters are likely to be subject to change to reflect the outcome of the going concern work. Therefore, the committee is asked to agree that the Director of Finance, in consultation with the Chairman of the Committee (or Deputy Chairman in his absence), can make any further changes to the letters of representation that may arise during completion of the audit (recommendation d)

Conclusion of the audit

23. The audit cannot be concluded until after the period for the exercise of public rights has been completed and as noted above, there are other areas where audit work is still ongoing. However, the majority of the testing has been undertaken and it is expected that the audit can be concluded by early September.
24. It is anticipated that the auditors will issue an unqualified opinion on the 2019/20 Statement of Accounts, although it may be necessary for the auditors to include an Emphasis of Matter paragraph as a result of uncertainty arising from the impact of the Covid-19 pandemic. Ernst & Young LLP's audit results reports set out that, at this stage of the audit, there are no amounts that have been identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2020.

LORNA BAXTER

Director of Finance

Background papers: None

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