

## **Divisions Affected - All**

### **AUDIT & GOVERNANCE COMMITTEE - 21 July 2021**

#### **Statement of Accounts 2020/21**

##### **Report by Director of Finance**

### **RECOMMENDATION**

1. **The Committee is RECOMMENDED to**
  - (a) **Consider and approve the Statement of Accounts 2020/21 at Annex 1;**
  - (b) **Consider and approve the Letter of Representations 2020/21 for the Oxfordshire County Council accounts at Annex 2;**
  - (c) **Consider and approve the Letter of Representations 2020/21 for the Oxfordshire Pension Fund accounts at Annex 3;**
  - (d) **Agree that the Director of Finance, in consultation with the Chair of the Committee (or Deputy Chair in their absence), can make any further changes to the Statement of Accounts 2020/21 and letters of representation that may arise during completion of the audit.**

### **Executive Summary**

2. This report sets out the latest position on the preparation and audit of the 2020/21 Statement of Accounts including:
  - Authorisation of the Draft Accounts and Period of Public Inspection
  - Progress on the external audit
  - Agreed amendments to the draft Statement of Accounts
  - Conclusion of the audit

### **Authorisation of the Draft Accounts and External Audit Progress**

3. The Accounts and Audit (Amendment) Regulations 2021, which amend the Accounts and Audit Regulations 2015, set out the statutory timetable for the publication of the Council's unaudited accounts and completion of the external audit.
4. The amended regulations include an extension to the deadline for the completion of the external audit from 31 July to 30 September for two years relating to the 2020/21 and 2021/22 accounts. The amended regulations also remove the fixed period for public inspection of the accounts for 2020/21 which

required draft accounts to be published by 31 May and instead require draft accounts to be published on or before 1 August. The amended regulations have been designed to provide flexibility, giving more time for the completion of the draft accounts where required but also enabling draft accounts to be published earlier and for audits to be completed in advance of the 30 September deadline.

### **Authorisation and Publication of the draft statement of accounts**

5. The draft Statement of Accounts were authorised for issue on 24 June 2021 and published alongside the Annual Governance Statement on the [Annual accounts and audit](#) page of the County Council's website. The period of public inspection commenced on 25 June 2021 and will conclude on 6 August after 30 working days.
6. A training session was held for members of the Committee on 23 June 2021 to review the draft accounts which were shared with the Committee in advance of the session. The session was well attended.
7. As noted in the report to Audit and Governance Committee on 2 June 2020, there were two areas where only incomplete information was available in time for the publication of the draft accounts. These were:
  - Valuations of Property, Plant and Equipment (PPE) relating to 17 Care Homes and;
  - Business Rate and Council Tax Collection fund values
8. The Care Home valuations were received on 9 July 2021 and have been incorporated into the draft accounts at Annex 1.
9. For 2020/21 the deadline for of Business Rate Collection Fund data submission was extended from 30 April to 30 June 2021 by MHCLG. During June, a further extension of the deadline to 7 July 2021 was announced. The County received final outstanding information from District Councils on 7 July. This information has been incorporated into the draft accounts at Annex 1.

### **External audit progress**

10. The main external audit commenced on 7 June 2021 and good progress has been made to date. However, it must be acknowledged that the process has been particularly challenging due to the delay in receiving some of the information required to complete the statement of accounts.
11. In particular, the delays in receiving valuations of PPE have meant that the Corporate Finance team have been in the unusual situation of needing to respond to the audit queries while simultaneously compiling the draft accounts. This has inevitably led to responses to audit requests taking longer than usual to complete.
12. It should also be noted that the auditors have also been unable to start work on the Whole of Government Accounts (WGA) audit as the data collection tool kit has not been released by central government for 2020/21 meaning that the Council's submission is yet to be made. The auditors do not need to complete

their work on WGA to reach their opinion on the audit, however this work must be completed before the audit certificate can be issued.

## **Agreed Amendments to the Draft Statement of Accounts**

13. In addition to including the updated information relating to Care Home valuations and the Collection Fund, a number of amendments to disclosures within the accounts have also been agreed with the external auditors and included in the latest version of the accounts at annex 1. These amendments change the way that information is presented to the reader of the accounts but do not require amendments to accounting entries within the Council's financial ledger and have no impact on the position of the General Fund.
14. The majority of the amendments are minor presentational changes. However, there have been significant revisions to 'Note 22. Movements on PPE'. The changes to this note are referenced in Section 4 of the External Auditor's Audit Results Report at Item 6 on the agenda.
15. 'Note 22. Movements on PPE' has been revised to amend the presentation of the derecognition of brought forward Assets under Construction (AuC) relating to new build academy schools totalling £19.9m.
16. The accounting for capital expenditure on academy schools is relatively complex as the Council has a statutory duty for the sufficient provision of school places and the funding of new schools but does not have the statutory powers to operate the assets once they are constructed. This means that the Council bears the risk in the construction of the assets but doesn't receive the benefit. The value of the expenditure is held on the Council's balance sheet as AuC while the Council continues to bear the risk relating to the construction of the asset. In practice this is until a licence agreement has been signed to transfer the operational asset to the relevant academy trust on a 125 year lease.
17. Under [Section 25 \(d\) of the Capital Finance and Accounting Regulations 2003](#) the Council is able to fund 'expenditure incurred on works to any land or building in which the local in which the 'authority does not have an interest, which would be capital expenditure if the local authority had an interest in that land or building'. This is treated as Revenue Expenditure Funded by Capital Under Statute (REFCUS) in the accounts. Spend on academy schools meets this criterion.
18. The original disclosure showed the brought forward AuC balance as transferred to REFCUS following licence agreements being put in place. However, as the expenditure occurred in a prior year, this has now been amended to show as a derecognition from AuC. The net position in the accounts is unchanged.

## **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 £0.996m but below the overall materiality assessment of £19.912m.

20. At this stage there are no unadjusted differences to report for 2020/21. 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 (recommendation b).
22. Draft Letters of Representation for the County Council and Pension Fund accounts are included at Annex 3 and 4 respectively. Updates to the letters may be required to reflect the outcome of the audits. 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).

### **Assessment of Control Environment**

23. The External Auditor's report at Item 6 on the agenda includes an assessment of control environment at Section 7. The report notes that there are no significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements of which members are not aware. However, one recommendation has been raised in respect of journal authorisation.
24. The Council's self-service finance model enables managers to enter journals into the accounting ledger without secondary authorisation. This process has been in place since the transition to the Shared Service Partnership in 2015. There were no changes to the control environment in respect of authorisation of journals during 2020/21.
25. There are a number of retrospective checks in place to ensure that erroneous or fraudulent journals are identified. These include checks by cost centre managers and routine exception reporting carried out by the Corporate Finance team. The importance of checking transactions is highlighted to cost centre managers through training and guidance.

## Conclusion of the audit

26. 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 anticipated that the audit can be concluded in August and reported to the Audit and Governance Committee in September.
27. It is anticipated that the auditors will issue an unqualified opinion on the 2020/21 Statement of Accounts. 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 2021.

## Legal Implications

28. The Council must ensure that arrangements are in place to comply with the Local Audit and Accountability Act 2014, Accounts and Audit Regulations 2015 as amended and statutory guidance, including the Code of Practice on Local Authority Accounting in the United Kingdom.

### LORNA BAXTER

Director of Finance

Annex:

1. Statement of Accounts 2020/21 (published as an addenda)
2. Letter of Representations 2020/21 for the Oxfordshire County Council accounts
3. Letter of Representations 2020/21 for the Oxfordshire Pension Fund accounts

Background papers: Nil

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