

Report of the Deputy Chief Executive

AUDIT OF ACCOUNTS 2019/20 AND ASSOCIATED MATTERS1. Purpose of report

To approve the letter of representation and the process for the approval of the Statement of Accounts for the 2019/20 financial year and to receive the Audit Completion Report for the year ending 31 March 2020 from the Council's external auditors (Mazars) following their work on the 2019/20 accounts.

2. Background

The Governance, Audit and Standards Committee on 18 May 2020 received Mazars' Audit Strategy Memorandum – Year ending 31 March 2020 setting out their approach to the audit of the Council's 2019/20 accounts, highlighting significant audit risks and areas of key judgements. Mazars have almost concluded their work on the 2019/20 accounts and produced their Audit Completion Report. A brief summary is set out in appendix 1. Mazars anticipate issuing an unqualified audit opinion, without modification, on the Council's 2019/20 accounts. In addition, the Council will receive an unqualified Value for Money conclusion for the 2019/20 financial year.

At the time of writing, the external auditors of the Nottinghamshire Pension Fund (Grant Thornton) have not yet confirmed their final opinion on the Pension Fund's 2019/20 accounts and therefore Mazars are unable to gain satisfactory assurance over the net pension liability figure in the Council's 2019/20 accounts. This is expected to be resolved shortly. Further details are set out in appendix 2. Should any further amendments to the Statement of Accounts 2019/20 be required then it is proposed that this be delegated to the Deputy Chief Executive and Section 151 Officer to resolve with the Chair of this Committee.

The Statement of Accounts for 2019/20 including amendments agreed with Mazars thus far is circulated separately with this agenda. Officers will guide Members through the more important aspects of the document at the meeting. This will include additional disclosures concerning material uncertainty in the valuation of the Council's property, plant and equipment and the property assets of the Nottinghamshire Local Government Pension Fund at 31 March 2020 as a consequence of the coronavirus outbreak.

In accordance with regulations, the Council's letter of representation in respect of the 2019/20 accounts has to be approved by the Committee charged with governance. The draft letter along with the Audit Completion Report for the year ending 31 March 2020 is circulated separately with this agenda. A representative from Mazars will be present at the meeting to introduce their Audit Completion Report and answer any questions that Members may have.

Recommendation

The Committee is asked to RECEIVE the Audit Completion Report for the year ending 31 March 2020 and RESOLVE that:

- (i) the Statement of Accounts 2019/20 as circulated and the letter of representation as attached be approved and**
- (ii) delegation be given to the Deputy Chief Executive and Section 151 Officer along with the Chair of this Committee to approve any further changes required to the Statement of Accounts 2019/20.**

Background papers: Nil

APPENDIX 1**Audit of Accounts 2019/20 and Associated Matters**

As reported to the Committee on 18 May 2020, the Accounts and Audit Regulations (2015) set out the timescales for the production of the Council's accounts, including the dates of the public inspection period. Following the coronavirus outbreak and in response to the pressures this placed on finance teams and external auditors in the production of the 2019/20 accounts, the Accounts and Audit (Coronavirus) (Amendment) Regulations were approved on 7 April 2020 and came into effect on 30 April 2020. The most significant changes were as follows:

- The draft 2019/20 accounts had to be approved and presented to the external auditors for review by 31 August 2020 at the latest (instead of 31 May 2020) though they could be approved earlier if possible.
- The requirement for the public inspection period to include the first 10 working days of June was removed. Instead, the public inspection period had to commence on or before the first working day of September 2020.
- The publication date for the final, audited, 2019/20 accounts moved from 31 July 2020 to 30 November 2020.

The Council's Accounts Closedown Timetable 2019/20 was revised in response to these changes. The draft 2019/20 accounts were approved and presented to the external auditors for review on 30 June 2020, two months ahead of the revised statutory deadline of 31 August 2020. The public inspection period commenced on 1 July 2020 and ended on 11 August 2020 with details placed in advance on the Council's website.

Mazars' staff commenced their review of the Council's draft 2019/20 accounts remotely on 29 June 2020. This involved scrutinising working papers and other supporting documentation and liaising as necessary with Council staff and associated third parties.

Mazars' work focused upon the following significant risks:

- Management override of controls
- Valuation of land and buildings and assets held for sale (where material)
- Valuation of net defined pension liability

Sections 2 of the Audit Completion Report details the findings from Mazars' work and three internal control recommendations by Mazars are set out in section 3 along with the response from Council officers. All three recommendations were agreed in full.

The external audit identified a small number of misstatements in the draft 2019/20 accounts. Full details are set out in section 4 and the most significant of these have been adjusted for accordingly. There were also a number of misstatements that are not considered to be material and for which no adjustment has been made. Again, these are set out in section 4.

Section 5 sets out Mazars' conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. They have confirmed that they intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.

The Finance and Resources Committee on 9 July 2020 considered a report summarising capital and revenue spending in 2019/20 and some detail as to the more significant factors which accounted for any variances. The net spending totals on capital and revenue for both the General Fund and Housing Revenue Account have remained unchanged from those summarised at that meeting.

Within the Statement of Accounts 2019/20 is the Annual Governance Statement. A proposed Annual Governance Statement was presented to the meeting of this committee on 18 May 2020. An update is provided in another report on this agenda.

APPENDIX 2Nottinghamshire Pension Fund Accounts 2019/20

At the time of writing, the external auditors of the Nottinghamshire Pension Fund (Grant Thornton) have not yet confirmed their final opinion on the Pension Fund's 2019/20 accounts and therefore Mazars are unable to gain satisfactory assurance over the net pension liability figure in the Council's 2019/20 accounts.

As the net pension liability figure at 31 March 2020 within the Council's accounts is £53.931m, this represents a significant amount which therefore requires the assurance from the external suppliers of the figure. There is an expectation that there will be a 'material valuation uncertainty' disclosed on the Pension Fund's holding of property assets. If their final report discloses this, then due to the materiality of the Council's share of net pension liability figure, the Council's accounts will also need to be adjusted to disclose the 'material valuation uncertainty'. Should this disclosure need to be included within the Council's accounts, the following wording will be added to Note 4 – Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty and Note 42 – Defined Benefit Pension Schemes:

"PROPERTY ASSETS (TO BE CONFIRMED) within the Nottinghamshire Local Government Pension Fund has been reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the Council's share of Pension Fund PROPERTY ASSETS (TO BE CONFIRMED) at 31 March 2020."

Should the above wording need to be included, it is anticipated that Mazars will update their Audit Completion Report to include an 'emphasis of matters' paragraph along the following lines:

"We draw attention to Notes 4, 15 and 43 of the financial statements, which describe the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings and the valuation of the Council's share of Nottinghamshire Pension Fund's property assets. As disclosed in Notes 15 and 43 of the financial statements, the Council's and Pension Fund's valuers included a 'material valuation uncertainty' declaration within their reports as a result of the Covid-19 pandemic creating a shortage of relevant market evidence on which to base their judgements. Our opinion is not modified in respect of this matter."

An emphasis of matter paragraph is defined as "a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements."