

SUMMARY OF DECISIONS

Meeting:	Statement of Accounts Committee (meeting held – in part – jointly with the Audit Committee)	
Date:	Monday, 28 February 2022	
Place:	Council Chamber, Daneshill House, Danestrete	
Members Present:	Councillors:	Mrs Joan Lloyd (Chair), Philip Bibby CC, Sharon Taylor OBE CC, Jackie Hollywell, Sarah Mead, Adam Mitchell CC, Graham Snell and Jeannette Thomas.
Also Present:		Mr Neil Harris (Ernst & Young) Mr Robert Garnett (Ernst & Young)

1	APPOINTMENT OF PERSON TO PRESIDE	
	It was RESOLVED that Councillor Teresa Callaghan be appointed to preside over the meeting which was held jointly with the Audit Committee.	
2	APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST	
	There were no apologies for absence. There were no declarations of interest.	
3	2019/20 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT	C. Fletcher x2933
	<p>The Audit Committee and the Statement of Accounts Committee meeting jointly received a presentation from the Strategic Director (CF) on the Statement of Accounts 2019/20.</p> <p>The Audit Committee and the Statement of Accounts Committee meeting jointly received a presentation from the Strategic Director (CF) on the Statement of Accounts (SoA) 2019/20.</p> <p>The presentation from the Strategic Director (CF) included the following Information:</p>	

- as at 31 March 2020, the Council's Revenue and Capital Reserves had totalled £59,298,063;
- since then, changes to the draft SoA related to invoices received in September 2020, updated accruals, and a loan error relating to Hertfordshire Local Enterprise Partnership (LEP), meant that the revised 31 March 2020 Revenue and Capital Reserves now totalled £60,859,000;
- the effect of Covid-19, including a Government Grant underspend of £45,000; Covid loss of income and additional costs overspend of £178,000; Covid Revenue Contribution to Capital Outlay resulting in an underspend of £1.22M; carry forwards of £794,000; and pilot gains from Non-Domestic Rates of £518,000;
- Capital receipts during the year had amounted to £14.79M;
- The total of 2019/20 unusable reserves was £514,287;
- A summary of the balance sheets revealed net assets of £573,581;
- Long term assets totalled £812,964; and
- Long term liabilities totalled £271,597.

The Strategic Director (CF) commented that key points arising from the ISA 260 report were that valuations were required and these would be reviewed for 2020/21; Pension entries required changes; and adjustments for the Hertfordshire LEP loan and some other working accruals. She added that adjustments had not been made regarding the valuation of Queensway LLP; that the asset valuations would be adjusted in 2020/21; and that the £153,000 Capital underspend was unadjusted as it was an extrapolation of £985.

In relation to work on the 2020/21 SoA, the Strategic Director (CF) reported that the Draft Accounts and Public Inspection Notice had been published on 26 October 2021. Audit planning had taken place in February 2022; Sample selection, fieldwork and conducting the audit would take place in March and April 2022; and it was estimated that the draft Audit report would be issued in May 2022.

The Strategic Director (CF) concluded by stating that proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting included a deferral of the implementation of IFRS 16 Leases, which was currently set to be implemented in the 2022/23 Code; and pausing the requirements for professional valuation of operational property, plant and equipment assets in 2021/22.

In response to Members' questions, the Strategic Director (CF) advised:

- once the Covid-19 pandemic had started, measures were put in place to ensure the Council's financial resilience when a revised Medium Term Financial Strategy was approved in June 2020. This included a significant Revenue Contribution to Capital Outlay;
- the asset valuation differences between the Council and Ernst & Young amounted to £2M out of a total of £780M; and
- it was confirmed that the external auditors' sample testing of property, plant and equipment had identified 7 low value items (cumulative value £985) for which the Council was unable to provide evidence to support the capital nature of this expenditure. Accordingly, the external auditors had extrapolated these items to calculate a projected audit misstatement of £153,480. The Council had not adjusted the financial statements for this projected misstatement.

Neil Harris (Ernst & Young) presented the Audit Results Report (ISA 260) for 2019/20, and made the following points during his presentation:

- the "lateness" of the 2019/20 audit report was due to resource constraints and staff turnover, both in the public sector audit industry and in Local Authority Finance Teams. This should be viewed in the context of increased regulatory demands, coupled with the complex nature of the SBC audit (including Queensway LLP valuations), against the backdrop of the Covid-19 pandemic and increased home working;
- the outstanding matters to conclude on the 2019/20 audit were outlined in the report. Work was nearly concluded, and it was likely that there would be no material uncertainties that needed to be disclosed. If any material uncertainties arose, then this matter would need to be reported back to the Audit/Statement of Accounts Committees;
- reference was made to the summary of the unadjusted audit differences set out in Section 3 of the report, as previously

mentioned by the Strategic Director (CF), namely the inappropriate capitalisation of revenue expenditure (£153,000); valuation of property, plant and equipment (£120,000); and Queensway lease accounting treatment (£175,000);

- attention was drawn to the summary of agreed adjusted audit differences, also set out in Section 3 of the report, which included the accounting treatment of Hertfordshire LEP funding for Capital regeneration schemes in Stevenage; the Pension liability; and Property, Plant and Equipment valuations; and
- Following work carried out investigating and addressing a significant risk concerning the Council's financial resilience, Ernst & Young was currently expecting to report an unmodified value for money conclusion in relation to the 2029/20 audit.

Neil Harris concluded by referring to the Ernst & Young fees for the audit, set out in Section 9 of the report. There had been a significant increase in the level of fees due to the complexity of the audit. However, he advised that Public Sector Audit Appointments (PSAA) Ltd would be arbitrating between Ernst & Young and the Council on this matter.

In reply to a series of questions, Neil responded as follows:

- there was a 50% backlog in local authority audits. It could possibly take 2 to 3 years to get back on track;
- audit priority was given to "major" local authorities, such as Hertfordshire County Council, who administered pension funds. Whilst a lower level of materiality was applied to Borough/District councils, such audits were often more complex, especially for those councils like Stevenage BC which operated a Housing Revenue Account. Delays also occurred at times when the audit timetable and the Finance Team resources available at District/Borough councils to assist were not aligned (eg) Budget setting;
- there had been an increasing scarcity of auditors experienced in public sector audit, and part of this was that the work was not seen as attractive, due to the audit complexity and constrained timetables. However, CIPFA and the audit firms had been concentrating on a recruitment drive aimed to address this shortfall; and
- the number of staff at Ernst & Young had increased over the past 18 months. Ernst & Young operated an Audit Risk Sub-Committee, which ensured that the complexities and risks associated with each audit were recognised, and which aimed to address any resource issues that had arisen which showed that an audit would need an increased level of support.

At 19:17 hrs the Statement of Account Committee **RESOLVED** to adjourn until the rise of the Audit Committee.

The Statement of Accounts Committee reconvened at 19:33 hrs with Councillor Mrs Lloyd in the Chair.

The Strategic Director (CF) advised the Committee of her responses to a series of further questions raised by the Audit Committee as follows:

- Section 106 monies – these Capital monies were received in advance and were not committed until certain conditions were met. They were therefore not treated in the same manner as grants income. A good proportion of Section 106 monies were allocated for Hertfordshire County Council functions, such as education;
- Valuation of market based property assets – the 4 properties out of a sample of 8, where the valuation of the asset was outside of a reasonable expected range, thereby resulting in an audit misstatement, was considered a sufficient sample size; and
- Joint ventures liability – there is no finite figure that could be applied to the extent of SBC's liability, as the Council was a partner in but had no direct control over a number of joint ventures, such as the Hertfordshire Building Control Partnership.

The Committee noted the above responses, and had no further questions to ask.

The Chair expressed her thanks to the External Auditors, the Strategic Director (CF) and asked that the Committee's appreciation be conveyed to the Finance Team for assisting in the audit under such trying circumstances.

The Committee noted that there were a number of issues to be resolved before the final 2029/20 Accounts were signed off. Accordingly, the Strategic Director (CF) was requested to inform Members of the Committee and the Audit Committee when that occurred, advising of any changes made to the final Accounts.

It was **RESOLVED**:

1. That the Chief Financial Officer be delegated authority, after consultation with the Chairs of the Audit Committee and

	<p>Statement of Accounts Committee, to authorise changes to:</p> <p>(i) the Council's Letter of Representation (Appendix 2 to the report), provided no matters arise from the conclusion of the audit which are material in nature.</p> <p>(ii) the Statement of Accounts 2019/20 (Appendix 3 to the report), provided no matters arise from the conclusion of the audit which are material in nature.</p> <p>2. That the Audit Results Report to those charged with Governance for 2019/20 (Appendix 1 to the report) be noted.</p> <p>3. That the Annual Governance Statement (Appendix 1 to the report) be approved.</p>
4	URGENT PART I BUSINESS
	None.
5	EXCLUSION OF PRESS AND PUBLIC
	Not required.
6	URGENT PART II BUSINESS
	None.