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Dear Eamonn

Preparation and audit of the 2019/20 Statement of accounts

I hope you and your colleagues are all keeping safe and well in these very unusual and difficult times.

Whilst we must observe that preparation of the statement of accounts is the responsibility of the responsible financial officer, in this letter we set out some key issues relating to the preparation and audit of 2019/20 financial statements, some of which are also covered by CIPFA's recent Bulletin 05 Closure of the 2019/20 Financial Statements. We would welcome early engagement with you on these matters and will make arrangements to discuss them with you further.

Financial reporting issues arising as a result of the Covid-19 pandemic

As noted in Bulletin 05, there are numerous issues that will impact local authorities as a result of the Covid-19 pandemic.

Possible implications for the 2019/20 statement of accounts include:

- impairment of non-current assets
- impairment of investments, including investments in group entities
- changes in expected credit losses
- changes in the fair value of investment properties, surplus assets and financial instruments affecting measurement and disclosure
- events after the reporting period requiring adjustment to the accounts or disclosure
- increased estimation uncertainty
- commentary on the effects of the pandemic on the authority within the narrative report

Bulletin 05 provides guidance in relation to these matters and references the requirements of the Code. We would welcome early engagement with you regarding the authority's assessment of the impact of the pandemic on its 2019/20 statement of accounts.

Going Concern basis of accounting

Paragraphs 43-45 of Bulletin 05 refer to the Going Concern basis of accounting. It confirms that that local authorities can only be discontinued under statutory prescription and as such should continue to prepare their financial statements on a going concern basis. The bulletin also discusses whether an authority needs to make an assessment of its ability to continue as a going concern.

Grant Thornton UK LLP's view is that in preparing their financial statements authorities are required to disclose material uncertainties related to events or conditions that may cast significant doubt upon their ability to continue as a going concern. In view of the Covid-19 pandemic and pressures on local authority finances, consideration of this requirement will come into sharper focus in audits of 2019/20 financial statements.

In conducting your audit we will comply with our responsibilities under International Standard on Auditing 570 *Going Concern,* and also with Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom* issued by the Public Audit Forum to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

Accounting for the McCloud and Sargeant judgements in 2019/20

CIPFA published a McCloud Briefing (https://www.cipfa.org/services/networks/pensions-network/event-documents/cipfa-mccloud-briefing-note) on 9 March to assist local, police and fire authorities and LGPS funds in commissioning IAS19 valuations for inclusion in the 2019/20 statements of accounts. This Briefing provided some background to the McCloud and Sargeant judgements.

Subsequently on 30 April CIPFA has published Bulletin 05 Closure of the 2019/20 Financial Statements (https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-05-closure-of-the-201920-financial-statements).

Grant Thornton's UK LLP's view remains as communicated during our 2018/19 audit. The two tribunals give rise to a legal obligation that is required to be measured under IAS 19. Disclosure of a contingent liability in relation to the McCloud and Sargeant judgements is not, in our view, appropriate, and where this has a material impact on the financial statements, we would have to consider the implications for our opinion.

Deferral of the implementation of IFRS 16 Leases

At its meeting on 27 March CIPFA/LASAAC agreed to defer the implementation of IFRS 16 Leases to the 2021/22 financial year, with an effective date of 1 April 2021. This decision aligns with the proposals across the public sector.

Although the implementation of IFRS 16 has been delayed to 1 April 2021, in our view authorities still need to include disclosure in their 2019/2020 statements to comply with the requirement at 3.3.4.3 of 2019/20 Code and underlying requirement of IAS 8 paragraphs 30 and 31. As a minimum, we would expect authorities to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, we expect the financial statements to state this.

Valuation uncertainty and RICS Covid-19 Valuation practice alert

The Code requires that where assets are revalued the revaluations shall be sufficiently regular to ensure that carrying amounts do not differ materially from current value at the end of the reporting period.

We note a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19, and that different markets will react differently. RICS has issued a Valuation practice alert following the pandemic, and in practice we are noting that a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Our expectation is that authorities will assess the impact of such disclosures, taking account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in relation to major sources of estimation uncertainty.

Dedicated Schools Grant (DSG)

The Department for Education published its response to a consultation on changing the conditions of grant and regulations applying to the DSG in January 2020. DfE's response confirmed changes to the conditions of grant would be made as proposed and that provisions would be included in the Schools and Early Years Finance (England) Regulations 2020 regarding the carrying forward of deficits.

Bulletin 05 acknowledges the regulations relate specifically to the 2020/21 financial year and states CIPFA's view that to faithfully represent the balance sheet position for reserves at 31 March 2020, any accumulated DSG deficit should be disclosed as a negative earmarked usable reserve.

In our response to DfE's consultation we disagreed that changing the conditions of the grant would be sufficient in isolation to achieve the Government's intention to require overspends to be carried forward and not charged against general reserves, as this would be at odds with the requirements of proper accounting practice and the Code.

Grant Thornton UK LLP remains of the view that where overspends arise against DSG and are to be carried forward as a call against the schools' budget in future years, these should form part of the un-earmarked general fund as:

- expenditure is required to be recognised in the year in which it is incurred, forming part of the 'Surplus / Deficit on Provision of Services' within the Comprehensive Income and Expenditure Statement
- the Schools & Early Years Finance Regulations 2020 regulations do not allow for expenditure to be reversed out of the General Fund in 2019/20.

I hope this is helpful and I look forward to engaging with you on the issues raised in this letter.

Yours sincerely

Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP