

Agenda item 5

Report title: 2019/20 Statement of Accounts		AGS/90/20
Report to: Audit, Governance and Standards Committee		
Report author: Nicole Wood, Executive Director, Finance and Technology		
Date of meeting: 30 November 2020		For: Approval
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Divisions affected: All Essex		

1 Purpose of report

1.1 The purpose of this report is to:

- i. Explain the role of the Audit, Governance and Standards Committee in relation to approval of the 2019/20 Statement of Accounts.
- ii. Consider the matters raised in the External Auditor's 'Audit Completion Reports' (presented elsewhere on the Agenda) in relation to the audit of the Council's accounts for 2019/20 and those for the Essex Pension Fund.
- iii. Present an updated draft of the Council's 2019/20 Statement of Accounts, which has been amended to address matters arising during the 'final accounts audit' carried out by BDO LLP.
- iv. Present an updated draft of the Council's 2019/20 Annual Governance Statement.

2 Recommendations

2.1 It is recommended that the Committee:

- i. Notes the matters raised in the External Auditor's 'Audit Completion Reports' (*presented elsewhere on the Agenda*);
- ii. Agrees not to adjust the 2019/20 Statement of Accounts for the non-material unadjusted misstatements and unadjusted disclosure omissions and improvements identified within the Audit Completion Reports for the Council and Pension Fund;
- iii. Approves the updated draft of the 2019/20 Annual Governance Statement, which is included in the Statement of Accounts document (*pages 201 to 222 of **Appendix A***);
- iv. Approves the updated draft of the 2019/20 Statement of Accounts (*attached as **Appendix A** to this report*); and
- v. Notes the representations that the Executive Director for Finance and Technology and Chairman of the Committee will make on behalf of the

Council and the Essex Pension Fund (as set out within the Letters of Representation appended to the Audit Completion Reports for the Council and the Essex Pension Fund, which are presented elsewhere on the Agenda).

3 Background

- 3.1 The draft Statement of Accounts for 2019/20 was certified by the Executive Director for Finance and Technology on **30 June 2020**.
- 3.2 The Accounts have subsequently been subject to external audit review, the outcome of which is summarised in the Audit Completion Reports for Essex County Council and for the Essex Pension Fund, which are presented elsewhere on the agenda. The Accounts have also been made available (via the Council's website) for public inspection.
- 3.3 The Accounts must now be formally approved by this Committee in order for the Council to meet the statutory deadline of **30 November 2020** for publication of its Statement of Accounts for 2019/20 (*note that the statutory deadline is later this year, as the government extended the timetable in response to the Covid-19 pandemic*).

4 Responsibilities and timeframes relating to the Statement of Accounts

- 4.1 The respective responsibilities, and timeframe, for the approval and publication of the 2019/20 Statement of Accounts are as follows:

Deadline	Actions
31 Aug 2020	<p>The Executive Director for Finance and Technology, as the Council's Responsible Financial Officer, must sign and date the Statement of Accounts and release the draft Accounts for external audit and public inspection.</p> <p>The 2019/20 Accounts were certified on 30 June, and they were released for external audit and public inspection on 1 July 2020.</p>
30 Nov 2020	<p>The Statement of Accounts must be re-certified by the Executive Director for Finance and Technology and, following approval by the Audit, Governance and Standards Committee, by the Chairman of the Committee.</p> <p>The Executive Director for Finance and Technology and Chairman of the Committee must also sign letters of representation for the Council and for the Essex Pension Fund, addressed to the external auditor, confirming their opinion that the financial statements present fairly the financial position of the Council and the Essex Pension Fund, and of their income and expenditure for the year ended 31 March 2020.</p>

Deadline	Actions
30 Nov 2020	The Key Audit Partner will certify his opinion on the accounts upon conclusion of the audit.
	The Statement of Accounts will be published on the Council's website.

5 Financial statements

5.1 The Statement of Accounts was presented to the Committee, in draft, on **6 July 2020**. Some amendments have been made to the Council's Accounts since then. An explanation of the more significant amendments is provided in the following paragraphs.

5.2 Cash and cash equivalents

The pooled bank account balances with the Council's own banker have been disaggregated from cash and cash equivalents in the Balance Sheet and are now shown separately as a bank overdraft (within current liabilities). The opening and closing comparative figures for the prior year have been restated on a consistent basis. The note on cash and cash equivalents (**Note 22**) has also been updated for this change.

5.3 Cash Flow Statement and Cash Flow Note (**Note 28**)

Revenue expenditure funded from capital under statute has been recategorised as a cash outflow arising in relation to operating activities, rather than in relation to investing activities. In addition, the cash inflows and outflows arising in relation to investments have been restated to show the gross turnover in the year, rather than the net movement between the opening and closing positions for the year.

Neither of these adjustments alter the net increase in cash and cash equivalents, as previously presented.

For both of these changes, comparative figures for the prior year have been restated on a basis consistent with the 2019/20 presentations.

5.4 Note on assumptions made about the future and other major sources of estimation uncertainty (**Note 3**)

The notes on property, plant and equipment and investment property values and the pensions liability have been updated to include additional explanatory comments on the material valuation uncertainty that existed at 31 March 2020 because of the COVID-19 pandemic.

5.5 Notes on Financial Instruments (**Note 19**)

Various updates have been made to these notes to:

- Reflect the re-categorisation of the pooled bank balances as a bank overdraft (as per paragraph 5.2 above);

- Update the estimate of the fair value of PFI liabilities (note **19.4**); and
- Include interest liabilities in the maturity analysis of existing financial liabilities (Note **19.6**).

Comparative figures for the prior year have been restated on a consistent basis.

5.6 Narrative Report

The wording in the narrative report on the COVID-19 pandemic (pages 13 and 14 of the Statement of Accounts) has been updated to reflect the position up to the end of the audit of the 2019/20 Accounts.

5.7 Group Accounts

Where relevant, the Group Accounts have been updated to reflect the changes to the Council's own accounts, as outlined in the preceding paragraphs.

5.8 Other changes

The Council has made minor amendments to various other disclosure notes, mainly to improve clarity and / or to remove content that is not considered to be quantitatively nor qualitatively material.

6 Essex Pension Fund Accounts

6.1 Some amendments have also been made to the Essex Pension Fund Accounts. The following paragraphs provide an overview of these changes.

6.2 Assumptions made about the future and other major sources of estimation uncertainty (Note 6)

The notes on Property and Private Equity have been updated to include additional explanatory comments on the material valuation uncertainty that existed at 31 March 2020 because of the COVID-19 pandemic. The notes on the Property valuation techniques used have also been expanded.

6.3 Payments to and on account of leavers (Note 9.4)

A new disclosure note has been added that provides an analysis of payments to and on account of leavers; this replaces the previous note on transfers out to other schemes.

6.4 Fair Value – Basis of Valuation (Note 17)

Information on the basis of fair value valuations is now shown in a separate table within Note 17 and comparative figures for the prior year have been restated to show Property Unit Trusts as level three assets, rather than level two. In addition, further explanation has been provided of the basis of valuation, inputs and key sensitivities of level three assets.

6.5 Other changes

Various disclosure notes have been removed on the basis that they related to items neither quantitatively nor qualitatively material to the accounts. Some minor presentational amendments have also been made to various disclosure notes.

7 Updated draft of the Statement of Accounts

7.1 The 2019/20 Statement of Accounts, which is attached to this report at **Appendix A**, incorporates all the amendments outlined in sections 5 and 6 above.

7.2 At the time of writing this report, the external audit work was nearing completion, but with matters still outstanding both in relation to the Council's accounts and those of the Essex Pension Fund (as detailed within the Audit Completion Reports presented elsewhere on the agenda). Should it be necessary to make further amendments to the Statement of Accounts as the audit work is concluded, an update will be provided at the Audit, Governance and Standards Committee meeting.

8 Audit Completion Reports

8.1 The Audit Completion Reports for the Council and the Essex Pension Fund, which are presented elsewhere on the agenda, summarise the findings from the 2019/20 audit, although it should be noted that the audit work was incomplete at the time of writing these reports.

8.2 The Audit Completion Reports include messages arising from the audit of the Council's financial statements and those of the Essex Pension Fund, and the results of the work undertaken to assess the Council's arrangements to secure value for money in our use of resources.

8.3 The reports state that the External Auditor expects to issue:

- an **unmodified** opinion on the financial statements, with an **emphasis of matter** related to valuation uncertainty on property, plant and equipment and pension liability values as a consequence of the Covid-19 pandemic;
- an **unmodified** opinion on the Council's arrangements to secure economy, efficiency and effectiveness in our use of resources.
- An **unmodified** opinion on the Essex Pension Fund financial statements, with an **emphasis of matter** related to valuation of directly held properties as a consequence of the Covid-19 pandemic.

The 'emphasis of matter' paragraphs in the auditor's reports for the Council and Essex Pension Fund are **not** audit qualifications. Their inclusion in the Auditor's reports means that, whilst the Auditor is content that the accounts appropriately present or disclose the financial position and performance of the

Council and Pension Fund for 2019/20, they believe it is important to highlight the material uncertainties surrounding these valuations as a consequence of the Covid-19 pandemic.

- 8.4 The Committee must consider the matters raised in the Audit Completion Reports before approving the 2019/20 Statement of Accounts.
- 8.5 The Audit Completion Report for Essex County Council refers to two non-material unadjusted misstatements in the Council's accounts.
- 8.6 The first non-material unadjusted misstatement relates to creditors (**£2.195m**). The unadjusted misstatement relates to an extrapolated error, which means that is an inferred rather than actual error.
- 8.7 The second non-material unadjusted misstatement (estimated at **£18.250m**) relates to Property, Plant and Equipment valued on a depreciated replacement cost basis in a year prior to 2019/20. The unadjusted misstatement is a judgmental misstatement concerning an accounting estimate. Judgmental misstatements arise where the external auditor and the Council have a different view of the efficacy of the accounting estimate.
- 8.8 Neither of these unadjusted misstatements are material to the financial statements, either taken as a whole, or in connection with the ability to properly assess the performance and/or financial position of the Council.
- 8.9 The Audit Completion Report also refers to the Council's accounting treatment of the Dedicated Schools Grant deficit of **£5.359m**. The Council has carried this deficit into a negative earmarked revenue reserve, in line with accounting guidance published by the Chartered Institute of Public Finance and Accountancy (the body responsible for defining local authority accounting practice) in March 2020. BDO are of the view that the Council should instead have offset this deficit against its General Balance. With effect from 2020/21 the Council will be required, by regulation, to transfer any deficit on its Dedicated Schools Grant to an unusable reserve.
- 8.10 The Audit Completion Report for the Essex Pension Fund refers to two unadjusted misstatements in the Pension Fund accounts which, if posted, would increase the 'Net decrease in the assets available for benefits during the year' in the Fund Account and decrease 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by **£19.123m**. The differences result from estimating private equity valuations as at 31 March 2020 because the actual data was not available when the draft Accounts were being compiled. The Fund has taken the decision not to amend the financial statements on materiality grounds, as the variance only represents **0.29%** of net assets.

- 8.11 The Audit Completion Report for the Essex Pension Fund also notes one unadjusted disclosure matter related to investment management expenses, as performance related fees have not been disclosed. This information has not been disclosed as it is not deemed to be material, either quantitatively or qualitatively.

9 Representation letters

- 9.1 Before the audit opinion for 2019/20 can be issued, the External Auditor requires the Executive Director for Finance and Technology and Chairman of the Audit, Governance and Standards Committee to provide management representation letters for the Council, and for the Essex Pension Fund. These letters are appended to the Audit Completion Reports, which are presented elsewhere on the Agenda.
- 9.2 The Committee is asked to note the representations that the Executive Director for Finance and Technology and Chairman of the Committee will be making on behalf of the Council and the Essex Pension Fund.

10 Annual Governance Statement

- 10.1 The Statement of Accounts document also includes the Annual Governance Statement (pages 201 to 222 of **Appendix A**). This is a statutory document which must be approved before the Committee approves the Council's Statement of Accounts.
- 10.2 The Statement was considered by the Committee in July. One amendment has been made to the Statement since then, to reflect a change to the target date for completion for the move of employees to Essex Pay from October 2020 to January 2021. Over 6,700 employees have moved to Essex Pay (EP) through an opt in or dismissal and re-engagement process. The approach has resulted in no recourse to an Employment Tribunal to date. There are 413 employees still to move to Essex Pay and the speed at which ECC has been able to progress this has been delayed by Covid19 as much of this employee group have been stood down for part of the pandemic period or have been on Furlough.
- 10.3 The Committee are now asked to approve the Annual Governance Statement.

11 Policy context and Outcomes Framework

- 11.1 This report presents the Council's 2019/20 Statement of Accounts for approval, which summarise the financial performance and financial position for the Council for the 2019/20 financial year. As such, it provides a financial representation of activities during 2019/20 against the Organisation Strategy.

12 Financial Implications

- 12.1 All actions proposed within this report are considered by the Section 151 Officer as appropriate for approval of the Statement of Accounts.

13 Legal Implications

- 13.1 There are no legal implications associated with this report, beyond the fact that the Council has a statutory duty to publish its Statement of Accounts for the year just ended by 30 November 2020.

14 Staffing and other resource implications

- 14.1 There are no staffing or other resource implications associated with this report.

15 Equality and Diversity implications

- 15.1 There are no equality and diversity, or other resource implications associated with this report.

16 List of appendices

- 16.1 Appendix A: **2019/20 Statement of Accounts**

17 List of Background Papers

- 17.1 Not applicable for this report.