

Agenda item 3

AGS/01/24

Report title: 2020/21 Statement of Accounts	
Report to: Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Corporate Services	
Date of meeting: 25 January 2024	For: Approval
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Divisions affected: All Essex	

1. Executive summary

- 1.1 The draft Statement of Accounts for the 2020/21 financial year was originally presented to the Committee on **28 June 2021 (AGS/13/21)**. Since then, the accounts have been subject to external audit and public inspection.
- 1.2 It was not possible for BDO to finalise the 2020/21 audit of the Council and Essex Pension Fund in line with the statutory deadline for publication of the 2020/21 accounts (**30 September 2021**).
- 1.3 BDO did present drafts of their audit completion reports to the Committee on **21 March 2022** for both the Council (AGS/12/22) and Essex Pension Fund (AGS/11/22). The audit completion report for the Council was marked as draft because of an issue relating to infrastructure assets which had been raised and was being addressed at a national level.
- 1.4 The national resolution for the infrastructure assets issue came at the end of 2022 in the form of an update to the CIPFA Code of Practice on Local Authority Accounting and a statutory instrument. However, for reasons already well reported to the Committee, BDO were unable to finalise the 2020/21 audit during 2023.
- 1.5 In line with the commitment BDO gave to the Audit, Governance and Standards Committee on **18 December 2023**, the audit completion reports have now been finalised and are presented elsewhere on this agenda for the Committee's consideration. The audit completion reports set out the key findings and conclusions of the auditor in relation to the audit of the financial statements of the Council and the Essex Pension Fund for 2020/21.

- 1.6 The content of the audit completion reports must be considered before the Committee decides whether to approve the 2020/21 Statement of Accounts for publication.
- 1.7 Some amendments have been made to the Council's and Essex Pension Fund's financial statements since they were first presented to the Committee in June 2021. The amendments have been made to address matters arising during the external audit. None of the amendments made impact on the Council's usable reserves and balances or on the net assets of the Pension Fund.
- 1.8 BDO highlight some unadjusted audit differences, but none of these are material in the context of the financial statements overall or to the financial position of the Council and Essex Pension Fund.

2. Recommendations

- 2.1 It is recommended that the Committee:
 - i. Notes the matters raised in the External Auditor's audit completion reports, which are presented elsewhere on the agenda.
 - ii. Agrees not to adjust the 2020/21 Statement of Accounts for the non-material unadjusted misstatements identified within the Audit Completion Reports for the Council and Essex Pension Fund.
 - iii. Approves the 2020/21 Annual Governance Statement, which is included in the Statement of Accounts document (pages 194 to 216 of **Appendix A** to this report).
 - iv. Approves the updated draft of the 2020/21 Statement of Accounts (pages 1 to 193 of **Appendix A** to this report).
 - v. Notes the representations that the Executive Director, Corporate Services 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).
 - vi. Notes that the completion of the audit means that the former corporate system (**TCS**) will not be required after the end of **February 2024**, and endorses any decision to end the support contract with Fujitsu for the system.

3. Background

- 3.1 The draft (unaudited) Statement of Accounts for 2020/21 was presented to the Audit, Governance and Standards Committee on **28 June 2021 (AGS/13/21)**. The Executive Director, Corporate Services certified the Statement of Accounts on **30 June 2021**, and released them for external audit and public inspection on **1 July 2021**.
- 3.2 It was not possible for BDO to finalise the 2020/21 audit of the Council and Essex Pension Fund in line with the statutory deadline for publication of the 2020/21 accounts (**30 September 2021**).
- 3.3 BDO did however present drafts of their audit completion reports to the Committee on **21 March 2022** for both the Council (**AGS/12/22**) and Essex Pension Fund (**AGS/11/22**). The report for the Council was issued as draft because of an issue relating to infrastructure assets which had been raised and was being addressed at a national level.
- 3.4 The national resolution for the infrastructure assets issue came at the end of 2022 in the form of an update to the CIPFA Code of Practice on Local Authority Accounting and a statutory instrument. These had the practical impact of permitting existing accounting practice for infrastructure assets to continue until a longer-term accounting solution could be agreed.
- 3.5 Following the publication (in mid-January 2023) of further guidance by CIPFA on accounting for infrastructure assets BDO asked the Council to demonstrate the efficacy of its depreciation policy for infrastructure assets. The output from this work was provided to BDO on **6 March 2023**. BDO concluded that they were unable to review this work in time to present the final audit completion reports to the Committee on **27 March 2023**, but hoped to be able to present their final audit completion reports to the Committee on **3 July 2023**. For reasons already well reported to the Committee, it did not prove possible for BDO to finalise the 2020/21 audit in July 2023, or later in the year either.
- 3.6 In line with the commitment BDO gave to the Audit, Governance and Standards Committee on **18 December 2023**, the audit completion reports have now been finalised and are presented elsewhere on this agenda for the Committee's consideration.
- 3.7 The audit completion reports sets out the key findings and conclusions of the external auditor in relation to the audit of the financial statements of the Council and Essex Pension Fund for 2020/21. The content of the audit completion reports must be considered before the Committee decides whether to approve the 2020/21 Statement of Accounts for publication.

- 3.8 The 2020/21 Statement of Accounts have been updated since they were first presented to the Committee in June 2021. The amendments have been made in response to matters arising during the external audit of the financial statements of the Council and Essex Pension Fund. An explanation of the more significant amendments is provided in Sections 4 and 5 below.
- 3.9 The Accounts must now be approved by this Committee before the Statement of Accounts for 2020/21 can be formally published.
- 3.10 As part of the process of approving the Accounts:
- The Statement of Accounts must be **re-certified** by the Executive Director, Corporate Services and, following approval by the Audit, Governance and Standards Committee, by the Chairman of the Committee.
 - The Executive Director, Corporate Services and the Chairman of the Committee must 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 2021.
- 3.11 Once the Council has approved and certified the Statement of Accounts and the letters of representation, the external auditor will certify the opinion on the accounts. The external auditor expects to issue the audit opinions on the financial statements of the Council and Essex Pension Fund by **31 January 2024**. The Statement of Accounts, including the auditor's opinions, will then be published on the Council's website.

4. Financial statements for the Council

- 4.1 An explanation of the more significant amendments made to the Council's Accounts for matters arising during the external audit is provided in the following paragraphs.

4.2 Infrastructure assets

Following publication of an update to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and the Local Authorities (Capital Finance and Accounting) (England and Wales) (Amendment) Regulations 2022, and new CIPFA guidance on Accounting for Infrastructure Assets, the Council:

- Amended its depreciation policy for infrastructure assets (explained in **note 1.12.3** of the Accounts, on pages 43 and 44 of Appendix A) which resulted in an additional depreciation charge for infrastructure assets for the year of **£8.699m** (increasing the charge for infrastructure assets from **£44.870m** to **£53.569m**). This adjustment reduced the surplus on the provision of services (as shown in the Council's Comprehensive Income and Expenditure Statement), and the carrying value of infrastructure

assets (as shown in the Balance Sheet) by **£8.699m**, but it had no impact on the Council's usable reserves and balances.

- Removed the gross book value and accumulated depreciation for Infrastructure Assets from disclosure **Note 15** on **Property, Plant and Equipment, other non-current assets and assets held for sale** (which commences on page 71 of Appendix A) because historical reporting practices and resultant information deficits mean that inclusion of this information would not faithfully represent the asset position it purports to represent.
- Added commentary to disclosure **Note 15.2** (on page 73 of Appendix A) to explain that the carrying amounts to be derecognised for infrastructure assets where there is replacement expenditure is **£nil**.

4.3 Short term debtors and creditors

The Council is the accountable body for several partnership arrangements. Invoices raised in March 2021 to collect contributions due to these partnerships for the 2021/22 financial year were incorrectly reflected in the Council's 2020/21 Balance Sheet as debtors at year end. This, in turn, resulted in a misstatement of the creditors reflected in the Balance Sheet for cash held by the Council on behalf of these partnership arrangements at year end. The impact of correcting for this error was to reduce both **debtors** (see **Note 21**, on page 90 of Appendix A) and **creditors** (see **Note 23**, on page 91 of Appendix A) in the Council's Balance Sheet for 2020/21 by **£7.168m**.

4.4 Capital grant receipts in advance (Note 24)

Grants are held as receipts in advance where the Council has received the income, but not yet met the conditions entitling it to the funding. While no changes were made to the totality of capital grant receipts in advance held as at 31 March 2021, it was necessary to reclassify **£3.0m** of the capital grants awarded by the South East Local Enterprise Partnership as long term, rather than short term (see **Note 24**, on page 91 of Appendix A).

4.5 Specific grant income

The Council received a government grant in 2020/21 as compensation for loss of income because of service closures during the COVID-19 pandemic. **£6.413m** of the grant was credited to the accounts as general income, rather than as a specific grant. The impact of correcting this was to increase government grants in the Comprehensive Income and Expenditure Statement (against the Health and Adult Social Care line) and to correspondingly reduce other income (against the same line). **Note 13.2**, which provides an analysis of specific grants received in the year, was also updated (see page 69 of Appendix A).

4.6 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.

4.7 Other changes

The Council updated **Note 39** on **events after the report date** (see page 121 of Appendix A) to reference the impact on the carrying value of property, plant and equipment assets of new guidance published by the Department for Education on 31 August 2023. This guidance, on **reinforced autoclaved aerated concrete** (RAAC), required urgent action to be taken at any schools with known RAAC, unless a structural mitigation was in place.

Minor amendments were also made to various other disclosure notes. None of the amendments changed the intent of the previous disclosures and they were mainly actioned to improve clarity.

5. Essex Pension Fund Accounts

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

5.2 Investments by asset type (Note 12.2)

Movements in the value of index linked securities, equities (unit life assurance policies) and property unit trusts have been recategorised, but these adjustments had no impact on the closing value of the associated investments.

5.3 Reconciliation of fair value measurements within Level 3 (Note 17.3)

The reclassification of movements in property unit trusts referred to above also impacted on Note 17.3. However, as noted above, this adjustment had no impact on the closing value of the investment.

5.4 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.

6. Updated draft of the Statement of Accounts

6.1 The 2020/21 Statement of Accounts, which is attached to this report at **Appendix A**, incorporates all the amendments outlined in sections 4 and 5 above.

- 6.2 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.

7. Audit Completion Reports

- 7.1 The External Auditor's Audit Completion Reports for the Council and the Essex Pension Fund, which are presented elsewhere on the agenda, summarise the findings from the 2020/21 audit, although it should be noted that the audit work was incomplete at the time of writing these reports.
- 7.2 The Audit Completion Reports include messages arising from the audit of the Council's financial statements and those of the Essex Pension Fund.
- 7.3 The reports state that the External Auditor expects to issue **unmodified opinions** on the financial statements of the **Council** and the **Essex Pension Fund**.
- 7.4 The Committee must consider the matters raised in the Audit Completion Reports before approving the 2020/21 Statement of Accounts.
- 7.5 The Audit Completion Report for Essex County Council refers to three **non-material unadjusted misstatements** in the Council's accounts which, if posted, would increase the surplus on the provision for services for the year by **£10.081m**.
- 7.6 The non-material unadjusted misstatements relate to expenditure recognition and are **projected errors**. This means that the auditor has identified errors in a sample of data and has assumed that errors occur at a similar rate in the entire population of data, which may not be the case.
- 7.7 The unadjusted misstatements are not 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.
- 7.8 The Audit Completion Report for the Essex Pension Fund refers to one unadjusted misstatement in the Pension Fund accounts which, if posted, would reduce the 'Net decrease in the assets available for benefits during the year' in the Fund Account and increase 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by **£9.529m**. The difference results from estimating private equity valuations as at 31 March 2021 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 **0.11%** of net assets.

8. Value for money arrangements

- 8.1 In previous years, the External Auditor has been required to provide a binary conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources (referred to as the 'value for money' conclusion).
- 8.2 With effect from 2020/21, the External Auditor is no longer required to provide a conclusion on the Council's value for money arrangements. Instead, the External Auditor has provided written commentary on the Council's arrangements to secure value for money and made recommendations to address any identified weaknesses in these arrangements.
- 8.3 The written commentary is set out in the **Auditor's Annual Report**, which is presented elsewhere on the agenda.

9. Representation letters

- 9.1 Before the audit opinion for 2020/21 can be issued, the External Auditor requires the Executive Director, Corporate Services and Chairman of the Audit, Governance and Standards Committee to provide management representation letters for the Council, and for the Essex Pension Fund.
- 9.2 The letters of representation are appended to the audit completion reports, which are presented elsewhere on the agenda.
- 9.3 The Committee is asked to note the representations that the Executive Director, Corporate Services and the 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 194 to 216 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 June 2021. No amendments have been made to the Statement since then.
- 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 2020/21 Statement of Accounts for approval, which summarise the financial performance and financial position for the Council for the 2020/21 financial year. As such, it provides a financial representation of activities during 2020/21 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.
- 12.2 The Council incurred significant additional costs because of the prolonged nature of the 2020/21 audit. It was necessary to retain ongoing access to the **TCS** corporate finance system (which was in place throughout 2020/21) beyond the go-live date for the new '**My Oracle**' corporate system. In total, the costs of retaining access of the TCS system amount to **£424,000**. The bulk of the cost relates to retaining access to the former finance system over the period April to August 2022, when the system was still being hosted by Fujitsu. Thereafter, the system was transferred to the Council's cloud environment (at a cost of **£48,000**), and it has only been necessary to pay Fujitsu for support on a month-by-month basis since then, at a cost of **£4,000** per month. On the basis that the 2020/21 audit is concluded in **January 2024**, the Council will cease to need access to the TCS system and can end the support contract with Fujitsu at the end of **February 2024**.
- 12.3 The audit completion reports for the Council and Essex Pension Fund provide an updated assessment of the audit fees payable for the year. In relation to the audit of the Council, BDO indicate that additional fees are likely in relation to Covid-19 remote working, the new use of resources approach and in relation to the infrastructure assets issue, and that there may be a fee reduction to partly offset these increases related to Whole of Government Accounts; these fee adjustments have not been quantified yet though. No additional fees are proposed in relation to the audit of the Essex Pension Fund. The audit fees will be subject to further discussion with BDO but will ultimately need to be approved by Public Sector Auditor Appointments Ltd, as the auditor appointing body.

13. Legal Implications

- 13.1 The Council is required to produce annual accounts in accordance with the Accounts and Audit Regulations 2015 as was amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 with respect to the 2020/21 financial year. The Council is also required to produce an annual governance statement and approve it before it approves the statement of accounts..

13.2 External audit is a key way in which members and the public can be reassured that the Council is viable and is, overall, operating well.

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: **2020/21 Statement of Accounts**

17. List of Background Papers

- 17.1 Previous related reports to the Audit, Governance and Standards Committee:
- i. Draft Statement of Accounts and Annual Governance Statement 2020/21 (**28 June 2021 – AGS/13/21**).
 - ii. Delay to completion of the External Audit of the Council's 2020/21 Statement of Accounts (**27 September 2021 - AGS/18/21**).
 - iii. Further delay to completion of the external audit of the Council's 2020/21 Statement of Accounts (**13 December 2021 - AGS/23/21**).
 - iv. 2020/21 draft audit completion report for the Essex Pension Fund (**21 March 2022 - AGS/11/22**).
 - v. 2020/21 draft audit completion report for Essex County Council (**21 March 2022 - AGS/12/22**).
 - vi. Update on the 2020/21 and 2021/22 external audits of the Council and Essex Pension Fund (**31 October 2022 – AGS/24/22**).
 - vii. Update on the 2020/21 and 2021/22 external audits of the Council and Essex Pension Fund (**30 January 2023 – AGS/01/23**).
 - viii. Update on the 2020/21 and 2021/22 external audits of the Council and Essex Pension Fund (**27 March 2023 – AGS/10/23**).
 - ix. Report on the 2020/21 Statement of Accounts and Audit, presented to an informal meeting of the Audit, Governance and Standards Committee on **3 July 2023**.
 - x. Report on the 2020/21 Statement of Accounts and Audit (**25 September 2023 – AGS/27/23**).
 - xi. Report on the 2020/21 Statement of Accounts and Audit, presented to an informal meeting of the Audit, Governance and Standards Committee (**18 December 2023 – AGS/35/23**).