

Agenda item 5

AGS / 38 / 19	
Report title: 2018/19 Statement of Accounts	
Report to Audit, Governance and Standards Committee	
Report author: Margaret Lee – Executive Director for Corporate and Customer Services	
Date of meeting: 29 July 2019	For: Approval
Enquiries to <i>Margaret Lee, Executive Director for Corporate and Customer Services</i>	
Tel. No: 03330 134558	
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 2018/19 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 2018/19 and those for the Essex Pension Fund.
- iii. Present an updated draft of the Council's 2018/19 Statement of Accounts, which has been amended to address matters arising during the 'final accounts audit' carried out by BDO.
- iv. Present an updated draft of the Council's 2018/19 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. Approves the draft of the 2018/19 Annual Governance Statement, which is included in the Statement of Accounts document (*pages 203 to 224 of **Appendix A***); and
- iii. Approves the updated draft of the 2018/19 Statement of Accounts (*attached as **Appendix A** to this report*);
- iv. Notes the representations that the Executive Director for Corporate and Customer 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).

3. Background and proposals

Background

- 3.1** In accordance with the requirements of the **Accounts and Audit Regulations 2015**, the draft 2018/19 Statement of Accounts was certified by the Executive Director for Corporate and Customer Services on **31st May 2019**.
- 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 **31st July 2019** for publication of its Statement of Accounts for 2018/19.

Responsibilities and timeframes relating to the Statement of Accounts

- 3.4** The respective responsibilities, and timeframe, for the approval and publication of the 2018/19 Statement of Accounts are as follows:

Deadline	Actions
31st May 2019	<ul style="list-style-type: none">· The Executive Director for Corporate and Customer Services, 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>This requirement was met.</p>
31st July 2019	<ul style="list-style-type: none">· The Statement of Accounts must be re-certified by the Executive Director for Corporate and Customer Services and, following approval by the Audit, Governance and Standards Committee, by the Chairman of the Committee.
	<ul style="list-style-type: none">· The Executive Director for Corporate and Customer Services 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 2019.
	<ul style="list-style-type: none">· The External Audit Partner will certify his opinion on the accounts upon conclusion of the audit.

Deadline	Actions
31st July 2019	<ul style="list-style-type: none"> The Statement of Accounts will be published on the Council's website.

Financial statements

3.5 The Statement of Accounts was presented to the Committee, in draft, on **3rd June 2019**. Amendments have been made to the Accounts since then. The following paragraphs provide an overview of these changes.

3.6 Local Government Pension Scheme liabilities

3.6.1 The Council is required to reflect its share of the liabilities of the Local Government Pension Scheme in its Balance Sheet on an actuarial basis, and its share of the assets of the Scheme at their fair value. It does this based on information provided by the Pensions Actuary.

3.6.2 The information provided by the Pensions Actuary, and used for preparing the draft accounts for 2018/19, initially made no allowance for Court of Appeal judgements in relation to the McCloud and Sargeant cases, which relate to age discrimination within the Judicial and Fire Pension Schemes respectively, due to uncertainty about how these Court of Appeal judgements may affect LGPS members' past or future service benefits.

3.6.3 The LGPS Scheme Advisory Board, with the consent of the Ministry of Housing, Communities and Local Government, commissioned the Government Actuary's Department (GAD) to prepare an assessment of the potential overall financial impact on the LGPS. GAD published their assessment on **10th June 2019**.

3.6.4 On **27th June 2019** it was confirmed that the Supreme Court would not give the Government permission to challenge the McCloud / Sargeant judgements.

3.6.5 Therefore, using the information published by GAD, which was based on a 'worst case scenario', the Pensions Actuary provided an estimate of the potential impact of the Court of Appeal judgements on the pension liabilities to be included in the Council's accounts for 2018/19.

3.6.6 The Actuary estimated the impact on the Council's share of the Pension liabilities at 31 March 2019 would be **£22.340m**.

3.6.7 The Council has updated its accounts to reflect this additional liability. The increase in the liability has been recognised as a past service cost in the Comprehensive Income and Expenditure Statement (thereby increasing the deficit on the provision of services), with an offsetting adjustment in the Movement in Reserves Statement to mitigate the impact on the General Fund.

- 3.6.8 The Net Pensions Liability and Pension Reserve have both been correspondingly increased too.

3.7 Debtors and creditors

Invoices to the value of **£3.034m** were raised in March 2019 for services to be provided in 2019/20, together with an accrual in the 2018/19 Accounts to mitigate the impact on the Revenue Account of invoicing early. However, because the invoices were unpaid at 31st March 2019, the Balance Sheet included a Debtor and an offsetting Creditor (receipt in advance). Both balances have now been removed from the Balance Sheet.

3.8 Disclosure note changes

- 3.8.1 The Council has also made amendments to various disclosure notes, the most significant of which are detailed below.

3.8.2 **Assumptions made about the future and other major sources of estimation uncertainty** (Note 3)

This note has been updated to ensure that it focusses only on those significant accounting estimates where actual results could be materially different from the assumptions and estimates used in preparing the 2018/19 Accounts.

3.8.3 **Property, Plant and Equipment – Revaluations** (Note 14.5)

The Council re-values all Property, Plant and Equipment assets required to be measured at current value under a rolling five-year programme and discloses the timing and amounts of valuations in a note to the Accounts. This note has been updated as the timings of some valuations were shown incorrectly.

3.8.4 **Financial Instruments** (note 18)

Additional commentary has been added to explain how credit risk is assessed for contractual debtors.

3.8.5 **Pension schemes accounted for as Defined Contribution Schemes** (Note 29)

The Council has two pension schemes which are accounted for as defined contribution schemes (Teachers and NHS Pension Schemes). The note on these schemes has been updated to include an estimate of the contributions expected to be paid by the Council in 2019/20.

3.8.6 **Related parties** (note 36)

Various minor updates have been made to this note, including to the disclosure of interests in the Rural Community Council of Essex and the Stow Maries Great War Aerodrome.

3.9 Group Account changes

The Group Accounts have been updated as a consequence of changes to the Council's own accounts. Some changes have also been made to figures in the Group Statements for pensions (affecting the split between the Authority shares of the Profit and Loss and Pension Reserves of the Subsidiary). Related disclosure notes have also been updated.

3.10 The 2018/19 Statement of Accounts, which is attached to this report at **Appendix A**, incorporates all these amendments.

3.11 At the time of writing this report, the external audit work was ongoing, with matters 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.

Audit Completion Reports

3.12 The Audit Completion Reports for the Council and the Essex Pension Fund, which are presented elsewhere on the agenda, summarise the findings from the 2018/19 audit, although it should be noted that the audit work was incomplete at the time of writing these reports.

3.13 The 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.

3.14 The reports states that the External Auditor expects to issue **unmodified** opinions on both the financial statements and the Council's arrangements to secure economy, efficiency and effectiveness in our use of resources. The unmodified opinion on the Council's arrangements to secure economy, efficiency and effectiveness is particularly significant, as the Council's previous external auditor had issued an 'except for' opinion in each of the previous three years' due to concerns about the Council's financial resilience to pressure from the economic environment.

3.15 The Committee must consider the matters raised in the Audit Completion Reports before approving the 2018/19 Statement of Accounts.

Representation letters

3.16 Before the audit opinion for 2018/19 can be issued, the External Auditor requires the Executive Director for Corporate and Customer Services 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.

- 3.17** The Committee is asked to note the representations that the Executive Director for Corporate and Customer Services and Chairman of the Committee will be making on behalf of the Council and the Essex Pension Fund.

Annual Governance Statement

- 3.18** The Statement of Accounts document also includes the Annual Governance Statement (pages 203 to 224 of **Appendix A**). This is a statutory document which must be approved before the Committee approves the Council's Statement of Accounts. The Statement was considered by the Committee in June. The Committee are now asked to approve the Annual Governance Statement.

4. Policy context and Outcomes Framework

- 4.1** This report presents the Council's 2018/19 Statement of Accounts for approval, which summarise the financial performance and financial position for the Council for the 2018/19 financial year. As such, it provides a financial representation of activities during 2018/19 against the Organisation Strategy.

5. Financial Implications

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

6. Legal Implications

- 6.1** 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 **31st July 2019**.

7. Staffing and other resource implications

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

8. Equality and Diversity implications

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

9. List of appendices

9.1 Appendix A: 2018/19 Statement of Accounts

10. List of Background Papers

10.1 Not applicable for this report.