

Agenda item 3

Report title: Completion of the external audit of the Council's 2019/20 Statement of Accounts – Further Delay		AGS/82/20
Report to: Audit, Governance and Standards Committee		
Report author: Nicole Wood, Executive Director, Finance and Technology		
Date of meeting: 16 November 2020		For: Information
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Divisions affected: All Essex		

1. Purpose of report

- 1.1 The meeting on **28 September** was originally scheduled, in consultation with the external auditor, to consider the annual accounts and audit for 2019/20. Unfortunately, this was delayed for reasons which the external auditor confirmed was for reasons outside the Council's controls and was caused by operational difficulties experienced by the auditors (see **Appendix A**).
- 1.2 As a result the Committee, relying on assurances from the auditor, brought forward its **7 December 2020** meeting to **16 November 2020**, in order to meet the external auditor's revised expectations for completing their audit of the Council and Essex Pension Fund Accounts for 2019/20, and to approve the Council's 2019/20 Statement of Accounts for publication before 30 November 2020.
- 1.3 Unfortunately, whilst the external audit is now nearing completion, some aspects of the work are ongoing (most notably in relation to the valuation of land and buildings on a depreciated replacement cost basis).
- 1.4 Hence, the purposes of this report are to present an updated report by the Council's External Auditor, BDO LLP, on the current status of the audit of the Council's Statement of Accounts for 2019/20 (see **Appendix B**) and to ask the Committee to schedule a further meeting on or before **30th November** exclusively to receive the Audit Completion Reports for the Council and Essex Pension Fund, and to approve the 2019/20 Statement of Accounts for publication.

2. Recommendations

- 2.1 The Committee notes the reasons for the further deferral of completion of the audit for 2019/20, as appended to this report (see **Appendix B**).

- 2.2 The Committee agrees to schedule a further meeting on **30 November 2020** in order to meet receive BDO's Audit Completion Reports for the Council and Essex Pension Fund for 2019/20, and to approve the Council's 2019/20 Statement of Accounts for publication.

3. Background

- 3.1 The Council is required by Regulation to:

- Produce draft accounts, and present them for external audit, by a specified date each year;
- Make the draft Statement of Accounts available for a period of 30 working days, during which time the public have the right to raise objections, inspect the accounts and question the Local Auditor; and
- Publish its final, audited accounts by a specified date each year.

- 3.2 Statutory regulations usually require these activities to be undertaken in accordance with the following timetable:

- Produce the draft Statement of Accounts and present them for external audit by **31 May**;
- Make the draft accounts available for public inspection for a period of 30 working days, to include the first **10 working days** of **June**; and
- Publish final, audited, accounts by **31 July**.

- 3.3 However, the Government extended the statutory deadlines for the 2019/20 financial year (as a consequence of the Covid-19 pandemic) as follows:

- The deadline for production of draft accounts was deferred from **31 May** to **31 August**;
- The deadline for publication of final, audited accounts, was deferred from **31 July** to **30 November**.

The Government also confirmed that authorities could choose when to commence their period for public inspection of their accounts.

- 3.4 An informal deadline of **30 June** was agreed between the Council and its auditors for production of the draft Statement of Accounts for 2019/20. In line with this aspiration, the Executive Director for Finance and Technology certified the draft (unaudited) Statement of Accounts for 2019/20 on **30 June**; and presented the draft accounts to the external auditor and commenced the 30-day period for the exercise of public rights on **1 July**. The draft Statement of Accounts was presented to the Committee, for information only, on **6 July 2020 (AGS/72/20)**.

- 3.5 It had been anticipated that the external auditor would report the results of the audit work to the Committee on **28 September 2020**, at which stage the Committee would be able to approve the Statement of Accounts for publication. However, this did not prove possible.

- 3.6 In line with BDO's revised expectations for completion of their audit work, the Committee agreed to bring forward the 7 December meeting to **16 November**, in order to receive and consider the Audit Completion Reports for the Council and the Essex Pension Fund and approve the 2019/20 Statement of Accounts for publication.
- 3.7 Whilst the external audit work is now substantially complete, the auditor reported, on Monday 2 November, that its work to gain assurance about the valuation of land and buildings in the accounts is ongoing. Since the value of land and property forms the large majority of the Council's Balance Sheet, it is not yet possible for BDO to issue their opinion on the Council's Statement of Accounts for 2019/20; neither is it prudent for the Committee to approve the current draft of the accounts for publication since, if BDO reach a conclusion that the current valuations are incorrect, then they may require the Council to amend its Accounts or they may qualify their audit opinion.
- 3.8 All land and property owned by the Council is valued by the Council's retained valuer at least every five years under a rolling programme of valuations. Most of these valuations are on an 'depreciated replacement cost' valuation basis, which is based on the cost of replacement rather than what the asset could realise on an open market sale. This is considered to be the most appropriate way of valuing the majority of ECC's assets, given the specialist uses of our property. The current basis of valuation has been used for many years.
- 3.9 When a property is not formally re-valued during the relevant financial year the most recent valuation of that property is adjusted in accordance with indices, to change carrying values to reflect circumstances as at 31 March 2020. BDO are concerned that the indices applied may not been sufficient to bring the carrying values of the Council's land and buildings to a 31 March 2020 price base.
- 3.10 BDO explain why this matter is still not resolved in section 4 of their report, as appended (**Appendix B**). In summary though, it appears that the auditor created an expectation of how asset values might have been expected to increase or decrease in 2019/20, and benchmarked actual movements against this expectation. Anything falling outside of the auditor's expected range is subjected to extended audit testing. The number of valuations falling outside of the auditor's initial expectation was much higher than in the previous year (i.e. 109 in 2019/20 compared to 40 in 2018/19). Whilst BDO have sought to undertake extended testing of a significant proportion of the valuations falling outside of their expected range, they have also sought to refine their expectation, with input from the Council's appointed valuer; this has been an iterative process though, and the auditor only finalised their sample of valuations to be subject to extended testing on 16 October.
- 3.11 Whilst it is disappointing that this matter has been raised so late in the day, it is the case that the auditor is entitled to assure itself as to the position and we are endeavouring to help them to understand whether these are valid concerns or whether BDO should ultimately be satisfied with the position.

- 3.12 It is therefore with great reluctance that the Committee is asked to schedule a further meeting on or before **30 November 2020**, for the purpose of receiving BDO's Audit Completion Reports for 2019/20, and to approve the Statement of Accounts for 2019/20. However, members should be aware that there remains a risk that we will be unable to approve the accounts by 30 November.

4. Policy context and Outcomes Framework

- 4.1 The Statement of Accounts for 2019/20 summarises the financial performance and financial position for the Council for the year ending 31st March 2020. As such, the Accounts provide a financial representation of activities during 2019/20 against the Organisation Strategy.

5. Financial Implications

- 5.1 It is not currently anticipated that there will be any specific financial implications arising because of deferral of completion of the 2019/20 audit.
- 5.2 From the Council's perspective, it would be difficult to understand why a delay in completion of its audit, for reasons outside of the Council's control, could justify an increase in audit fees. Consequently, any proposal by BDO to vary the audit fee for their 2019/20 audit would be subject to careful scrutiny.

6. Legal Implications

- 7.1 The Council is required to produce annual accounts in accordance with the Accounts and Audit Regulations 2015 as currently amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020. The Council is also required to produce an annual governance statement.

7. Staffing and other resource implications

- 7.1 There are no staffing implications associated with this report.

8. List of appendices

- 8.1 **Appendix A** – Report by BDO LLP on the initial deferral of completion of the audit of the Council's 2019/20 Statement of Accounts.
- 8.2 **Appendix B** – Report by BDO LLP on the further deferral of completion of the audit of the Council's 2019/20 Statement of Accounts.

9. List of Background Papers

- 9.1 None