

# Audit, Governance and Standards Committee

2020/21 Statement of Accounts and External Audit Reports

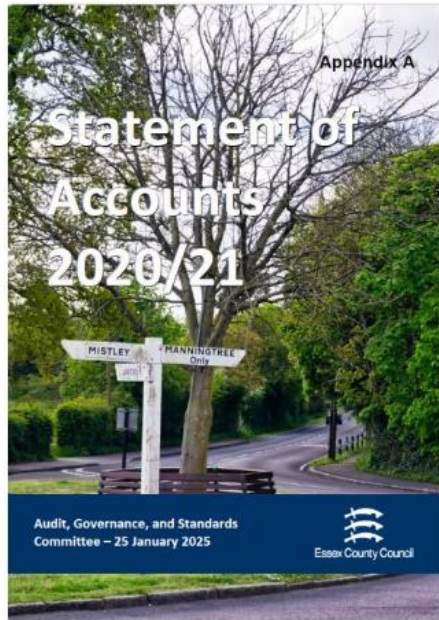
25 January 2024

# Contents

- |          |   |          |  |
|----------|---|----------|--|
| <b>1</b> | <b>Agenda items on Accounts and Audit</b> | <b>6</b> | <b>Unadjusted audit differences</b>            |
| <b>2</b> | <b>Timelines</b>                          | <b>7</b> | <b>Audit differences – Essex Pension Fund</b>  |
| <b>3</b> | <b>Statement of Accounts</b>              | <b>8</b> | <b>Recommendations related to the Accounts</b> |
| <b>4</b> | <b>Audit Completion Reports</b>           | <b>9</b> | <b>Auditor's Annual Report</b>                 |
| <b>5</b> | <b>Adjusted audit differences</b>         |          |  |

# Agenda items – Accounts and Audit

There are **four** agenda items related to the 2020/21 Statement of Accounts and to the external audit for the year.



## Item 3 (AGS/01/24)

Updated draft of the 2020/21 **Statement of Accounts**, which is presented for **approval**.



## Item 4 (AGS/02/24) and Item 5 (AGS/03/24)

BDO's **audit completion reports** for the Council and Essex Pension Fund. These reports set out BDO's key findings and the conclusions arising from their audit work.

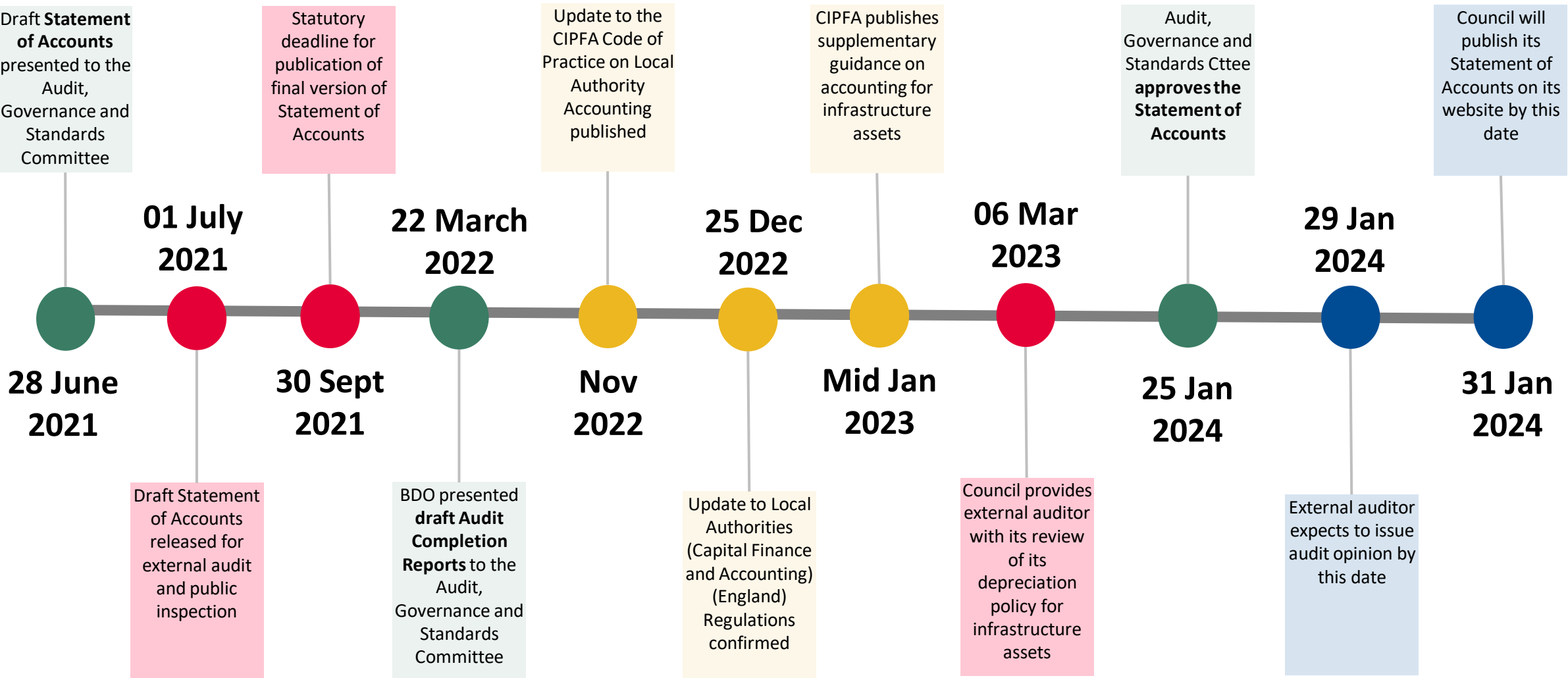
The Committee must **consider the content** of these reports before approving the Statement of Accounts.



## Item 6 (AGS/04/24)

The **Auditor's Annual Report** for 2020/21, which summarises the key findings from the audit of the financial statements and contains commentary on our arrangements to secure **value for money** in our use of resources.

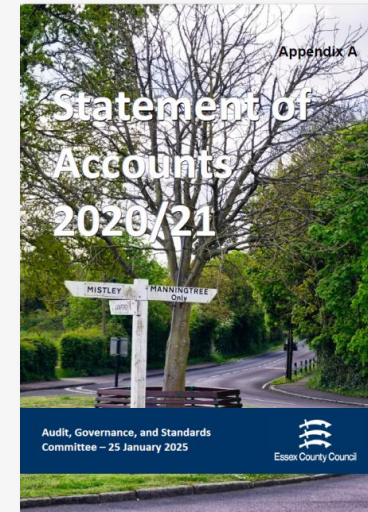
# Timelines



# 2020/21 Statement of Accounts

The Statement of Accounts contains:

- **Narrative Report** – provides commentary on the Council's financial performance and the economy, efficiency and effectiveness in its use of resources over the year.
- **Statement of Responsibilities** – explains the Council's and Executive Director, Corporate Services responsibilities for the Statement of Accounts.
- **Statement of Accounts** – comprise the financial statements, accounting policies and disclosure notes for the Council and Group. The Essex Pension Fund (EPF) accounts are also included.
- **Annual Governance Statement** – explains the governance arrangements in place and the effectiveness of the system of internal control during the year.
- **Audit Opinion** – will be added upon conclusion of the external audit and will provide an opinion on whether the Accounts provide a true and fair view of the financial performance and financial position of the Council and Essex Pension Fund.



The draft Statement of Accounts for 2020/21 was presented to the Audit, Governance and Standards Committee on **28 June 2021**.

The Statement of Accounts has been updated since then, for matters arising during the audit, and the document is now presented for **approval**.

Once approved, the accounts will be **published** on the Council's website.



# Audit Completion Reports

The **Audit Completion Reports** summarise the results of BDO completing their planned audit approach for 2020/21.

The Reports include:




- Summarises of the **audit work performed** in relation to the key risk areas identified at the audit planning stage.
- Explanations of the **materiality thresholds** for the audit of the Council and Essex Pension Fund.
- Explanations of the **audit differences** identified by the auditor's work, some of which we have adjusted the accounts for and some we have not.
- Summarises of the **audit fees** for the year.
- Summaries of the **work outstanding** on the audits at the time of writing.
- Commentary on **other matters**.



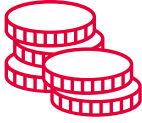

BDO's **Audit Completion Reports** summarise the **findings** from the audit of the financial statements for the **Council** and **Essex Pension Fund**.

Although some audit work was still outstanding at the time of writing the report, BDO report that they expect to issue **Unmodified Audit Opinions** on the financial statements for the Council and the Essex Pension Fund.

# Adjusted audit differences




		Explanation of adjustments made
	<b>Infrastructure assets</b>	<p>Increased the <b>depreciation</b> charge for infrastructure assets for the year by <b>£8.7m</b> following a review of the useful economic lives for these assets by Essex Highways.</p> <p>Removed the disclosure of the <b>gross book value</b> and <b>accumulated depreciation</b> for infrastructure assets from the Accounts.</p> <p>Added commentary to explain that the carrying amounts to be <b>derecognised</b> for infrastructure assets where there is <b>replacement expenditure</b> is <b>£nil</b>.</p>
	<b>Debtors and Creditors</b>	<p>The Council is the accountable body for several partnership arrangements.</p> <p>Amounts due to these partnerships were incorrectly included in the Balance Sheet as <b>debtors</b>.</p> <p>This in turn resulted in a misstatement of the <b>creditors</b> reflected in the Balance Sheet for cash held on behalf of these partnerships at year end.</p> <p>The impact of correcting for this was to reduce debtors and creditors in the Council's Balance Sheet by <b>£7.2m</b>.</p>
	<b>Capital Grant receipts in advance</b>	<p>Grants are held as receipts in advance where the income has been received, but we have not yet met the conditions entitling us to the funding.</p> <p>While no changes were made to the totality of capital grant receipts in advance, <b>£3.0m</b> was reclassified from <b>short to long term</b>.</p>

# Adjusted audit differences

		Explanation of adjustments made
	<b>Specific grant income</b>	<p>The Council received a government grant in 2020/21 as compensation for loss of income because of service closures during the COVID-19 pandemic.</p> <p><b>£6.4m</b> of the grant was credited to the accounts as general income in error, so has now been reclassified as specific grant income.</p>
	<b>Post balance sheet events</b>	<p>The Council updated Note 39 on events after the reporting date to:</p> <ul style="list-style-type: none"><li>• Reference the impact on the carrying value of property, plant and equipment assets of guidance on <b>reinforced autoclaved aerated concrete</b> (RAAC) which required urgent action to be taken at any schools with known RAAC, unless a structural mitigation was in place.</li><li>• Explain that changes to the contract for the <b>Waste Treatment Plant</b> mean that the contingencies disclosed in the draft Statement of Accounts have been removed.</li></ul>



# Unadjusted audit differences

		Explanation of issue
	<b>2019/20 audit testing</b>	<p>A projected misstatement of <b>£2.2m</b> was brought forward from 2019/20, mainly related to the estimates made at year end for amounts due to suppliers which varied from the amounts actually paid to those suppliers.</p> <p>The projected misstatement was based on an actual difference of <b>£79,000</b>.</p>
	<b>Expenditure testing</b>	<p>The Auditor's expenditure sample testing identified an amount of <b>£617</b> that related to 2019/20 but had not been reflected in that year's Accounts. Expenditure in 2020/21 was overstated by this amount.</p> <p>This error produced a projected misstatement of <b>£9.7m</b>.</p>
	<b>Accounts payable testing</b>	<p>Payables sample testing identified four items that were overstated, with a cumulative value of <b>£1m</b>, resulting in expenditure being overstated in 2020/21.</p> <p>This error produced a projected misstatement of <b>£2.6m</b>.</p>



These unadjusted misstatements relate to expenditure recognition and are all **projected errors**.

This means that BDO have identified **errors** in a **sample of data** and have assumed that errors occur at a **similar rate** in the **entire population** of data, which may not be the case.

Because these are **projected errors**, they can only be substantiated by further audit testing.

It is not intended to amend the Accounts for these audit differences.

# Essex Pension Fund audit differences

Unadjusted audit differences		
	<b>Brought forward misstatements</b>	<p>The unadjusted audit difference related to changes in the market value of investments was brought forward from 2019/20 and amounted to <b>£19.1m</b>.</p> <p>This has no impact on the value of investments as at 31 March 2021.</p>
	<b>Investment valuations</b>	<p>Private equity investment reports used during the preparation of the financial statements were not coterminous with the pension fund's year-end. The value of these investments at year end had to be estimated.</p> <p>More recent valuations for these investments were available during the audit which, when compared to the amount recognised in the Net Assets Statement, identified a variance of <b>£9.5m</b>.</p>

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.

Four **disclosure adjustments** were made to the Essex Pension Fund Accounts for matters arising during the audit and several other disclosure corrections or **enhancements** were made to improve the clarity of the financial statements.

# Recommendations related to the Accounts

It is recommended that the Committee:

1. Notes the matters raised in the External Auditor's **audit completion reports**.
2. 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.
3. **Approves** the:
  - **Annual Governance Statement** for 2020/21.
  - Updated draft of the **2020/21 Statement of Accounts**.
4. **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).
  - That the completion of the audit means that the **former corporate system** (TCS) will not be required after the end of February 2024 (capping the costs of retaining this system at **£424,000**) and endorses any decision to end the support contract with Fujitsu for the system.



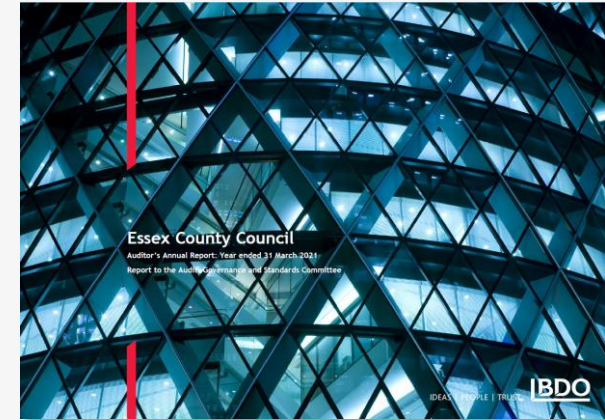
# Auditor's Annual Report

The **Auditor's Annual Report** provides a summary of the key issues arising from BDO's audit of the Council for the 2020/21 financial year.

In particular, the report contains **commentary** on the Council's arrangements for securing **economy, efficiency and effectiveness** in its **use of resources**.

The auditor must report against three specified reporting criteria:

- **Financial sustainability** - planning and managing resources to ensure the Council can continue to deliver its services;
- **Governance** - informed decisions and properly managing risks; and
- **Improving economy, efficiency and effectiveness** – using information about costs and performance to improve the way the Council manages and delivers its services.



BDO's **Auditor's Annual Report** includes commentary on our arrangements to secure **value for money**.

BDO have **not**:

- identified **any significant weaknesses** in respect of the Council's arrangements for securing value for money.
- raised any **recommendations** related to significant weaknesses but highlight areas that may warrant focus in future periods.

# Questions?