

Agenda item 11

Report title: Annual Report of the External Auditor for Financial Year 2020/2021	
Report to: Council	
Report author: Nicole Wood, Executive Director, Corporate Services	
Date of meeting: 13 February 2024	For: Approval
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Divisions affected: All Essex	

1. Purpose of report

- 1.1 The purpose of this report is to present the External Auditor's Annual Report for the 2020/21 financial year. The Report provides a summary of the key issues arising from the audit of the Council's financial statements for the financial year ending 31 March 2021, and commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The Report was considered by the Audit, Governance and Standards Committee on **25 January 2024**.

2. Recommendations

- 2.1 That Council notes the Auditor's Annual Report appended to this report.

3. Background and proposals

- 3.1 The detailed findings from the audit work performed by the appointed auditor, BDO LLP, in relation to the financial statements for year ending 31 March 2021 were set out in the **Audit Completion Report** for the Council, which was presented to the **Audit, Governance and Standards Committee** on **25 January 2024**.
- 3.2 The purpose of the **Auditor's Annual Report** (as appended) is to communicate key issues arising from the audit work for 2020/21. In particular, the report includes commentary on the Council's arrangements for securing value for money (economy, efficiency and effectiveness) in the use of resources.

- 3.3 In previous years, the external auditor was required to issue a binary opinion on the Council's value for money arrangements. However, with effect from 2020/21, the external auditor is instead required to provide commentary on the arrangements. The external auditor is required to adhere to the reporting criteria specified in guidance issued by the National Audit Office (NAO) in relation to value for money:
- **Financial sustainability** - planning and managing resources to ensure the Council can continue to deliver its services.
 - **Governance** - informed decisions and properly managing risks.
 - **Improving economy, efficiency and effectiveness** – using information about costs and performance to improve the way the Council manages and delivers its services.
- 3.4 BDO LLP report that they did **not identify any significant weaknesses** in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, having regard to the criteria specified by the NAO.
- 3.5 BDO LLP have provided a summary of their views on the Council's arrangements, and highlighted areas that may warrant focus in future periods. BDO LLP have **not raised any statutory recommendations** on the Council's value for money arrangements.
- 3.6 In relation to **financial sustainability**, BDO conclude that the Council has demonstrated arrangements to plan and manage resources, especially in difficult and uncertain times. BDO will continue to monitor the Council's financial position and financial sustainability though, to ensure it remains able to set a balanced budget, manage its financial resources and deliver services as expected.
- 3.7 In relation to **governance**, BDO conclude that they have not identified any significant weaknesses in this area but note that the number of 'Limited Assurance' Internal Audit opinions should be closely monitored to ensure the control environment is not weakening.
- 3.8 Finally, in relation to **improving economy, efficiency and effectiveness**, BDO conclude that the Council has demonstrated that it has arrangements in place to ensure that it effectively uses information about its costs and performance to improve the way it manages and delivers its services. BDO considers the arrangements around the complaints process and Essex Countywide Traveller Unit (ECTU) as areas of focus for improvement and continued monitoring.

- 3.9 Although BDO have no formal recommendations to make, they have noted several recommendations for improvement in relation to the South-East Local Enterprise Partnership (SELEP). Management responses to these recommendations have been provided to BDO and are included in the Auditor's Annual Report. BDO acknowledge that all the recommendations had already been addressed though, and that no further action is needed.

4. Why the Auditor's Annual Report is being presented to full Council

- 4.1 The Auditor's Annual Report was considered by the **Audit, Governance and Standards Committee** on **25 January 2024** in compliance with the Committee's remit to receive, consider and comment on reports issued by the External Auditor.
- 4.2 A review into the audit of local government accounts undertaken by **Sir Tony Redmond** in 2020 recommended that the Auditor's Annual Report should be reported to a meeting of the Council too, to ensure that all councillors are aware of any issues raised by the external auditor and have an opportunity to raise any issues or concerns they may have.
- 4.3 This report is presented to the Council in compliance with this recommendation.

5. Policy context and Outcomes Framework

- 5.1 The Auditor's Annual Report communicates the key matters related to the audit of the Council for the 2020/21 financial year. As such, this report relates to the Council's financial health and financial standing rather than to specific policies or outcomes.

6. Financial Implications

- 6.1 There are no specific financial implications associated with this report. However, 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 amounted to **£424,000**. The Council no longer needs access to the TCS system, and so can end the extended support contract with Fujitsu at the end of February 2024.

- 6.2 The audit completion reports for the Council and Essex Pension Fund provide an updated assessment of the audit fees payable to the external auditor for the year. In relation to the audit of the Council, BDO indicate that additional fees are likely. 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.

7. Legal Implications

- 7.1 This report forms part of the statutory external assurance framework regulated by the Local Audit and Accountability Act 2014.

8. Staffing and other resource implications

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

9. Equality and Diversity implications

- 9.1 There are no equality and diversity implications associated with this report.

10. List of appendices

- 10.1 Auditor's Annual Report for the year ended 31 March 2021.

11. List of Background Papers

- 11.1 None