

Report title: 2020/21 Statement of Accounts and Audit	
Informal Report to: Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Corporate Services	
Date of meeting: 18 December 2023	For: Noting
Enquiries to: Nicole Wood, Executive Director, Corporate Services email nicole.wood@essex.gov.uk or Christine Golding, Chief Accountant email christine.golding@essex.gov.uk	
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.
- 1.2 For reasons already well reported to the Committee, 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 presented 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.
- 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. These had the practical impact of permitting existing accounting practice for infrastructure assets to continue until a longer-term accounting solution could be agreed.
- 1.5 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 they advised that they would be able to present their final audit completion reports to the Committee on **3 July 2023**.

- 1.6 BDO were not able to present their final audit completion reports for 2020/21 to the Committee on **3 July 2023** though and advised that these reports would be presented to the Committee on **25 September 2023** instead. This did not prove possible either.
- 1.7 On **25 September 2023**, BDO committed to complete the audit for 2020/21 by the end of November 2023. However, despite this commitment, it did not prove possible for BDO to present their final audit completion reports to the Committee on **27 November 2023**. Neither was it possible for BDO to provide these reports for inclusion on the agenda for today's meeting.
- 1.8 BDO have provided an update on the status of the 2020/21 audit (as appended), and have advised that they now anticipate being able to present the final audit completion reports for 2020/21, together with the Auditor's Annual Letter, to the Committee on **25 January 2024**.

2. Recommendations

- 2.1 The report is for noting, but the Committee may wish to invite the external auditor to elaborate on the reasons for the further delay to completion of the 2020/21 audit of the Council.

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)**, one month ahead of the statutory deadline for production of the draft accounts for the year. The Executive Director, Corporate Services certified the draft accounts on **30 June 2021**, and released the Accounts for external audit and public inspection on **1 July 2021**.
- 3.2 The statutory deadline for publication of the final, audited accounts for 2020/21 was **30 September 2021**. However, BDO advised the Council in mid-July 2021 that it would not be feasible to complete the audit by this date. At that stage, BDO anticipated being able to present their audit completion reports for the Council and Essex Pension Fund to the Committee on **15 November 2021**, and to issue their Annual Report within three months of this date.
- 3.3 On **13 December 2021** the Committee were advised of a further delay to the 2020/21 audit (**AGS/23/21**), ostensibly due to delays in the timing of BDO's technical review of the Council's Accounts and their audit work on valuations and income and grants. Despite these delays it was understood that the audit work was nearing completion and that BDO would be able to present their audit completions reports for the Council and Essex Pension Fund to the Committee on **17 January 2022**. Unfortunately, this did not prove possible either.

- 3.4 Audit completion reports for the Council (**AGS/12/22**) and the Essex Pension Fund (**AGS/11/22**) were finally presented to the Committee on **21 March 2022**. 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. BDO reported that, with the caveat relating to the conclusion of the infrastructure issue, they would otherwise anticipate issuing an unmodified audit opinion for the Council. The audit completion report for the Essex Pension Fund was marked as complete, with the auditor stating that they anticipated being able to issue an unmodified opinion on the Fund's financial statements.
- 3.5 In **October 2022**, BDO reported to the Committee (**AGS/24/22**) that they anticipated being able to draw the 2020/21 audit to a conclusion in **January 2023**, subject to there being national resolution on the infrastructure assets 'issue' by **December 2022**.
- 3.6 The national resolution came in two parts:
- An update to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the UK (the Code), which was issued on **18 November 2022**; and
 - An update to the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations, which was laid on 25 November 2022 and came into force on **25 December 2022**.
- These updates had the practical impact of permitting existing accounting practice for infrastructure assets to continue until a longer-term accounting solution could be agreed. CIPFA issued supporting guidance to supplement these updates in mid-January 2023.
- 3.7 Following publication of the CIPFA guidance in mid-January 2023, the external auditor asked the Council to do a considerable amount of work to demonstrate the efficacy (or otherwise) of its depreciation policy for infrastructure assets. This required substantial input from Essex Highways colleagues; it was not possible to provide the output from this work to BDO until **6 March 2023**. BDO in turn advised the Council that they needed a minimum of four weeks to review this work, which they told us made it impossible for them to conclude the external audit in time to present the final audit completion report for the Council to the Committee on **27 March 2023**.
- 3.8 On **27 March 2023**, BDO advised the Committee that they would be able to present their final audit completion report for 2020/21 to the Committee on **3 July 2023**, at which stage the Committee would finally be able to approve the 2020/21 accounts for publication.

- 3.9 Unfortunately, on **19 June 2023**, BDO advised officers that their internal quality control reviews were still ongoing, meaning that they were still not yet able to issue a final audit completion report for the Council. The Chairman asked BDO to attend an informal meeting of the Audit, Governance and Standards Committee on **3 July 2023**, which was open to the public, to explain why.
- 3.10 At the informal meeting of the Committee on **3 July 2023**, BDO explained that the following elements of their audit work still needed to be completed:
- Audit team to write up results and conclusions of final testing completed on the infrastructure assets issue.
 - Finalise clearance points raised from Manager, Partner and EQR review.
 - Remaining elements of the Use of Resources assessment.
- BDO advised that this equated to one week's work and that they anticipated being able to complete this in sufficient time to present their final audit completion reports for 2020/21 to the Committee on **25 September 2023**.
- 3.11 On **5 September 2023**, BDO advised officers that they had been unable to secure sufficient capacity to enable them to complete their work on the 2020/21 audit, meaning that, despite their previous assurances, it is not possible for them to present the final audit completion report for that year to the Committee on **25 September 2023**.
- 3.12 Both David Eagles (BDO's Key Audit Partner on the Council's audits) and Geraint Jones (BDO's Head of Audit, London Office) attended the Committee meeting on **25 September 2023**. Geraint Jones assured the Committee that completion of the 2020/21 audit was a priority for BDO, and that significant resources were being allocated to ensure that the 2020/21 audit would be completed by the end of November 2023. Based on these assertions, the Committee agreed to schedule an additional meeting on **27 November 2023** for the purpose of receiving BDO's audit completion reports and the auditor's annual report, and to approve the 2020/21 accounts for publication.
- 3.13 Unfortunately, despite assurances that BDO would prioritise this work, the audit was not concluded in time for the **27 November 2023** meeting to proceed. The meeting was duly cancelled, and the agenda items related to completion of the 2020/21 audit were deferred, at BDO's request, to the agenda for the **18 December 2023** meeting.
- 3.14 During early November BDO sent a significant number of additional queries to the Council on the 2020/21 accounts. The volume and complexity of these queries was unexpected, given BDO's previous assertions that the audit was virtually complete. However, the queries were responded to in tranches over the period **8 to 15 November 2023**. BDO have indicated that there are no material matters arising from this testing.

- 3.15 On **10 November**, BDO advised the Finance team that they needed to undertake significant additional testing of schools' cash balances. The process to test the cash balances of approximately **200** schools is onerous and time consuming, as it necessitates each Local Bank Account (LBA) school giving their bank permission to release their details to BDO and BDO then writing to these banks to request confirmation of each school's bank balances as at 31 March 2021.
- 3.16 Because of the work necessary to test schools' cash balances, BDO concluded, on **28 November 2023**, that it would not be possible to complete their 2020/21 audit in time to present the final audit completion report for the Council to the Committee on **18 December 2023**.
- 3.17 BDO have provided an update on the status of their work on the 2020/21 audit (as appended). They also tell us that they expect to be able to complete their audit work in time to present their final audit completion reports for the Council and Essex Pension Fund and their Annual Report to the Committee on **25 January 2024**.

4. Policy context and Outcomes Framework

- 4.1 The Statement of Accounts for 2020/21 summarise the financial performance and financial position for the Council for the year ending 31 March 2021. As such, the Statement of Accounts provides a financial representation of activities during 2020/21 against the Organisation Plan.

5. Financial Implications

- 5.1 As previously reported, the Council has incurred significant additional costs because of the delayed and ongoing audit for 2020/21, most notably in relation to its legacy IT system.
- 5.2 The latest delays to completion of the 2020/21 audit have necessitated extending access to this legacy system for a further two months, until the end of January 2024, at an additional cost of **£8,600**.

6. Legal Implications

- 6.1 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.
- 6.2 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. Delays in completion of the audit increase the risk that something which is wrong isn't picked up as quickly as it ought to be.

- 6.3 Delay to the completion of this audit and the audit of the 2021/22 accounts has led to the Section 151 Officer being unable to give a certificate for the 2022/23 accounts and has put the Council in breach of its duty to commence the period for the exercise of public rights with respect to the 2022/23 accounts. The failure is therefore beginning to have an adverse impact on the integrity of the Council's control environment.

7. Staffing and other resource implications

- 7.1 The Finance Team has been under pressure because of having to continue to support the 2020/21 audit over such a prolonged period. However, the Finance Team has nevertheless continued to prioritise support to the external auditors, to do what they can to bring the Council's external audit for 2020/21 to a satisfactory conclusion.

8. Equality and Diversity implications

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

9. List of appendices

- 9.1 Update from BDO LLP on the status of their work on the 2020/21 audit.

10. List of Background papers

- 10.1 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**).