



Essex County Council

Audit, Governance and Standards Committee Informal Meeting

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|--------------|---------------------------|--|
| 10:00 | Monday 3 July 2023 | Committee Room 1, County Hall, Chelmsford CM1 1QH OR Online |
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For information about the meeting please ask for:

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Essex County Council and Committees Information

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| 3 | To note that the next meeting of the Committee will take place at 10am, Monday 25 September 2023, in Committee Room 1 at County Hall, Chelmsford, CM1 1QH | - |

Committee: Audit, Governance and Standards

Enquiries to: Sophie Crane, Senior Democratic Services Officer
Democratic.services@essex.gov.uk

Membership, Apologies, Substitutions and Declarations of Interest

Recommendations:

To note

1. The membership of the committee as shown below.
2. Apologies and substitutions
3. Declarations of interest to be made by Members in accordance with the Members' Code of Conduct

Membership

(Quorum: 3)

| | |
|------------------------|---------------------------------|
| Cllr Anthony Hedley | Chairman |
| Cllr Susan Barker | |
| Cllr David King | |
| Cllr Luke Mackenzie | |
| Cllr Aidan McGurran | |
| Cllr Anthony McQuiggan | Vice-Chairman |
| Cllr Mark Platt | |
| Cllr Laureen Shaw | |
| Cllr Chris Siddall | Vice-Chairman |
| Cllr Wendy Stamp | |
| Mr Atta Ul Haque | Independent member (non-voting) |

Named Substitutes

Cllr Lewis Barber
Cllr Jane Fleming
Cllr Mike Mackrory
Cllr Jaymey McIvor
Cllr Lee Scordis

| | |
|---|----------------------|
| 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: 3 July 2023 | For: Approval |
| 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 did present 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 though, because of a residual ongoing 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 BDO asked the Council to demonstrate the efficacy of its depreciation policy for infrastructure assets in January 2023. It was not possible to provide the output from this work to BDO until 6 March 2023. BDO concluded that they were unable to review this work in time to present the final audit completion report for the Council to the Committee on 27 March 2023, but they advised that they would be able to present their final audit completion report for 2020/21 to the Committee on **3 July 2023**.
- 1.6 Unfortunately, at the time of writing this report, BDO were still working through their internal quality control review processes, which are necessary to enable them to close the 2020/21 audit. This means they were not able to issue a final audit completion report for the Council to consider at this meeting of the Committee.

2. Recommendations

- 2.1 It is recommended that the Committee invites the external auditor to explain the reasons for the further delay to completion of the 2020/21 audit of the Council, in the light of their previous assertions that the final audit completion report would be completed for presentation to this meeting.

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 a residual ongoing 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 Instead, following publication of the CIPFA guidance in 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 are still ongoing, meaning that they are still not yet able to issue a final audit completion report for the Council. The Chairman has asked the Committee and BDO to attend an informal meeting, which will be open to the public, to explain why.

4. Financial Statements

- 4.1 Although the external auditor has yet to finalise the audit of the Council's 2020/21 Statement of Accounts, the Committee may nevertheless find it helpful to understand the amendments made to the Accounts to address the matters raised during the course of the audit. The amendments made are summarised in the following paragraphs. It is important to emphasise that all of these adjustments are below the auditor's materiality threshold of **£36.4m**, and that none of the adjustments have impacted on the Council's usable reserves.

4.2 Infrastructure assets

As referenced in paragraph 3.7 above, the Council undertook a thorough review of its depreciation policy for infrastructure assets following publication of updates to the CIPFA Code and the related statutory instrument, and the CIPFA guidance on accounting for infrastructure assets. As a consequence of this review, it was concluded that some categories of infrastructure assets should be depreciated over a shorter period than previously assumed. Amendment of the depreciation policy has resulted in an additional depreciation charge in 2020/21 of **£8.7m**. Whilst this adjustment reduces the surplus on the provision of services (as shown in the Council's Comprehensive Income and Expenditure Statement), and the carrying value of infrastructure assets (as shown in the Balance Sheet), it has no impact on the Council's usable reserves.

4.3 Short term debtors and creditors (notes 21 and 23)

The Council is the accountable body for several partnership arrangements. Invoices raised to collect contributions due from other partners for the 2021/22 financial year were incorrectly reflected in the Council's Balance Sheet as Debtors at year end. The impact of correcting for this error has been to reduce both debtors and creditors in the Council's Balance Sheet for 2020/21 by **£7.2m**.

4.4 Capital grant receipts in advance (Note 24)

Grants are held as receipts in advance where the Council has received but not yet met the conditions entitling it to the funding. Whilst no changes have been made to the totality of grant receipts in advance held as at 31 March 2021, it has been necessary to reclassify **£3m** of the capital grants awarded by the South East Local Enterprise Partnership as long term, rather than short term.

4.5 Group Accounts

Where relevant, the Group Accounts have been updated to reflect the changes to the Council's own accounts, as outlined in the preceding paragraphs.

4.6 Other changes

The Council has made minor amendments to various other disclosure notes, mainly to improve clarity and / or to remove content that is not considered to be quantitatively nor qualitatively material.

4.7 Essex Pension Fund Accounts

The Council has made minor amendments to various other disclosure notes in the Essex Pension Fund accounts, mainly to improve clarity and / or to remove content that is not considered to be quantitatively nor qualitatively material.

5. Policy context and Outcomes Framework

- 5.1 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.

6. Financial Implications

- 6.1 The Council has incurred significant additional costs as a consequence of the delayed and ongoing audit for 2020/21, most notably the costs associated with retaining access to a legacy IT system, at an estimated cost of **£378,000**.

7. 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.
- 7.2 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.
- 7.3 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.

8. Staffing and other resource implications

- 8.1 The Finance Team has been under considerable pressure as a result 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.

9. Equality and Diversity implications

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

10. List of appendices

10.1 None

11. List of Background papers

11.1 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**).