

<b>Report title</b> Update on the 2021/22 Accounts and External Audit	
<b>Report to Audit, Governance and Standards Committee</b>	
<b>Report author:</b> Nicole Wood, Executive Director, Corporate Services	
<b>Date of meeting:</b> 27 June 2022	<b>For:</b> Noting
<b>Enquiries to:</b> Nicole Wood, Executive Director, Corporate Services <b>email</b> <a href="mailto:nicole.wood@essex.gov.uk">nicole.wood@essex.gov.uk</a> or Christine Golding, Chief Accountant <b>email</b> <a href="mailto:christine.golding@essex.gov.uk">christine.golding@essex.gov.uk</a>	
<b>Divisions affected</b> All Essex	

## 1. **Everyone's Essex**

- 1.1 The purpose of this report is to provide the Committee with an update regarding:
- Publication of the draft Statement of Accounts for financial year ending 31 March 2022.
  - The status of the external audits for the financial years 2020/21 and 2021/22.

## 2. **Recommendations**

- 2.1 The Committee notes:
- the reasons why publication of the draft Statement of Accounts for 2021/22 has been delayed, and the updated arrangements for publication of those accounts.
  - the present uncertainties surrounding the external audits for 2020/21 and 2021/22.

## 3. **Background**

- 3.1 The Council is required to prepare its annual accounts in compliance with generally accepted accounting practice and to specified timelines.
- 3.2 The timescales for the annual accounts are articulated in the **Accounts and Audit Regulations 2015** (as amended). Currently, the statutory timelines for the 2021/22 Accounts are as follows:
- Publication of draft accounts for inspection: **31 July 2022**.
  - Publication of final, audited accounts: **30 September 2022**.

However, the Government recently consulted on a proposal to extend the timeline for publication of audited accounts for 2021/22 from 30 September to **30 November 2022**. At the time of writing, the outcome of this consultation is still awaited.

- 3.3 As reported to the Committee on 21 March 2022 (**AGS/10/22**), our aim was to produce the draft Statement of Accounts for 2021/22 by **30 June 2022**, in line with the timescales achieved in 2019/20 and 2020/21. However, it was acknowledged that this may be challenging, given the significant delay to completion of the audit of the Council's Accounts for 2020/21.
- 3.4 It was also noted that the statutory deadline for publication of the draft Statement of Accounts for the 2021/22 Accounts is **31 July 2022**, and hence that there was some scope to slip production of the draft Accounts and still be compliant with statutory timescales.
- 3.5 Although work on production of the draft Statement of Accounts for 2021/22 is progressing well, it has not been possible to finalise the draft in time for presentation to the Committee today. It has also not yet been possible for the external auditor to conclude the audit of the Council's Accounts for 2020/21.
- 3.6 The following paragraphs explain the status of work on production of the draft Statement of Accounts for 2021/22. They also provide commentary on the status of the external audit.

#### **4. Draft Statement of Accounts for 2021/22**

- 4.1 There are several key strands of activity necessary to close the accounts:
- Activities necessary to derive the revenue and capital '**provisional outturn**' positions for Cabinet Members' portfolios, and to assess the impact of those positions on the Council's reserves, balances and capital financing resources.
  - **Technical accounting activity** necessary to ensure compliance with generally accepted accounting practice.
  - Activities necessary to produce **consolidated Group Accounts** (i.e. accounts which consolidate the Council's own position with that of its local authority trading companies).

The following paragraphs provide an update on the status of each of these key strands of activity.

- 4.2 The work necessary to derive the 2021/22 revenue and capital '**provisional outturn**' positions, and to assess the impact on the Council's reserves, balances and capital financing resources, is complete. The provisional outturn position was reported to Cabinet on **21 June 2022 (FP/014/03/21)**.

- 4.3 The **technical accounting activities** and the work necessary to produce **consolidated Group Accounts** is also substantially complete, pending resolution of the matter referred to in section 5 below related to accounting for infrastructure (highways) assets.
- 4.4 It seems prudent to defer publication of the draft Statement of Accounts for 2021/22 until the end of July, to determine whether the outcome of the CIPFA LASAAC consultation referred to in section 5 below has any bearing on the accounting policies being applied in relation to these assets.

## 5. **Accounting for infrastructure (highways) assets**

- 5.1 Accounting for infrastructure (highways) assets has not historically been considered to be an area of significant audit risk in local authorities, due to:
- the inalienable nature of the assets (i.e. there is no prospect of selling them or putting them to alternative use).
  - the use of the historical cost basis of accounting for these assets.
- 5.2 However, the external auditor raised a concern earlier this year relating to subsequent expenditure on infrastructure assets and specifically about whether we should be assessing if there is any residual value remaining in the balance sheet for replaced components before the subsequent expenditure is added. Whilst this may be standard practice for many items of property, plant and equipment assets, it is not generally being applied for infrastructure assets, particularly highways assets, because there are significant practical difficulties with doing so.
- 5.3 This has become a national issue that has led to widespread delays in local authority audits for 2020/21, with authorities at risk of audit qualifications, and it presents a risk for all local authorities in subsequent years if the issues are not resolved.
- 5.4 The Chartered Institute for Public Finance and Accountancy (CIPFA) and CIPFA LASAAC agreed to try to assist in the resolution of the issue. Specifically, CIPFA LASAAC established a Task and Finish Group to consider whether any augmentations to the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code) and/or guidance might assist the current reporting position.
- 5.5 On the basis of the work of the Task and Finish Group, CIPFA LASAAC recently issued a consultation which sought views on proposals to amend the Accounting Code. CIPFA also issued, and sought views on, accompanying guidance. CIPFA LASAAC believes that the proposed augmentations to the Accounting Code should address external auditors' concerns. Whilst this consultation closed on **14 June 2022**, it is unlikely that the outcome of the consultation will be known and ratified before July.

## **6. Status of external audit for 2020/21**

- 6.1 BDO LLP presented drafts of the 2020/21 Audit Completion Reports for the Council and Essex Pension Fund to the Audit, Governance and Standards Committee on **21 March 2022 (AGS/11/22 and AGS/12/22)**.
- 6.2 In relation to the audit of the Council, BDO LLP reported that:
- There was a national issue relating to the carrying value of, and accounting for infrastructure assets (as referred to in section 5 above).
  - their audit work on the financial statements was substantially complete but that their internal quality control reviews were ongoing.
  - They would report on the results of their value for money work no later than three months after the date of their audit opinion on the Financial Statements.
- 6.3 As noted in Section 5 above, it is hoped that the national issue regarding infrastructure assets may be resolved once CIPFA confirms changes to the Accounting Code, although both the Council and BDO LLP may need to consider this further, once the CIPFA solution is confirmed.
- 6.4 BDO's internal quality control reviews are still ongoing.
- 6.5 BDO's work on the Council's value for money arrangements is also still ongoing.
- 6.6 Consequently, it is not yet possible to advise on the likely timelines for completion of the 2020/21 audit.

## **7. Arrangements for external audit for 2021/22**

- 7.1 At the time of writing, it is anticipated that:
- BDO LLP will present their Audit Plans for the Council and Essex Pension Fund for 2021/22 to the Committee on **19 September 2022**.
  - The audit of the Essex Pension Fund's financial statements will get underway in late August 2022.
  - The audit of the Council's Financial Statements will get underway in late September.
  - The review of the Council's arrangements to secure value for money in its use of resources will follow on from substantial completion of the audit of the Council's financial statements.
- 7.2 As noted in paragraph 3.2 above, the government has proposed a deadline of **30 November 2022** for publication of final audited accounts for 2021/22. However, it is not yet possible to advise when BDO LLP will be in a position to report the findings from their audit of the Council and Essex Pension Fund for the financial year ending 31 March 2022.

## **8. Policy context and Outcomes Framework**

- 8.1 The annual Statement of Accounts summarise the financial performance and financial position for the Council for the years ending 31 March. As such, the Statement of Accounts will provide a financial representation of activities during 2020/21 and 2021/22 against Everyone's Essex, the Council's Plan to Level Up the County.

## **9. Financial Implications**

- 9.1 It has previously been reported that it has been necessary to secure ongoing access to the former 'TCS' corporate systems for the purpose of seeing out the 2020/21 audit (originally at a cost of £38,000 per month, but currently at a cost of **£57,000** per month). TCS was due to be de-commissioned following 'go live' of the 'My Oracle' Corporate System in October 2021.

## **10. Legal Implications**

- 10.1 There are no legal implications associated with this report.

## **11. Staffing and other resource implications**

- 11.1 Closure of the accounts is a significant activity that usually requires substantial input from Finance staff over a relatively short period of time. Whilst the Finance team remains appropriately resourced for closure activity in normal circumstances, it is not resourced to support a prolonged and protracted external audit. The Finance team will therefore be under exceptional pressure until it is possible to get back on track with timely delivery of the external audit.

## **12. Equality and Diversity implications**

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

## **13. List of appendices**

- 13.1 None

## **14. List of Background Papers**

- 14.1 None