

Report title Closure of Accounts 2021/22	
Report to Audit, Governance and Standards Committee	
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Divisions affected All Essex	

1. Purpose of report

- 1.1 The purpose of this report is to provide the Committee with an overview of the activities and arrangements in place for closure of the Council's 2021/22 accounts, and for production and approval of the Statement of Accounts.

2. Recommendations

- 2.1 The Committee notes the current arrangements for closure of the Council's Accounts for the 2021/22 financial year, and the present uncertainties that may impact on our ability to publish the draft Accounts ahead of the statutory deadline to do so.

3. Background

- 3.1 The process of closing the Accounts, and of producing the information required to enable the external auditor to give an unqualified opinion on the accounts, is both complex and time constrained.
- 3.2 This is because the Council is required to prepare its annual accounts in compliance with generally accepted accounting practice and to specified timelines. These requirements are articulated in the **Accounts and Audit Regulations 2015** (as amended).
- 3.3 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, in December 2021, the Government announced that secondary legislation would be introduced which, if enacted, will extend the timeline for publication of audited accounts for 2021/22 from 30 September to **30 November 2022**.

- 3.4 It is currently intended that the draft accounts for 2021/22 will be produced by **30 June 2022**, in line with the timescales achieved in 2019/20 and 2020/21. However, at the time of writing, it remains unclear when the audit of the Council's 2020/21 Accounts will be finalised. If the audit is not concluded soon, it may not be possible to produce and publish draft accounts for 2021/22 by **30 June 2022**.
- 3.5 The Council would be able to defer publication of the draft Statement of Accounts by one month (to **31 July 2022**) and still remain in line with the statutory timetable. If preparation of the 2021/22 accounts is deferred beyond **31 July 2022**, it would be necessary to publish a notice on the Council's website to explain why.
- 3.6 The following paragraphs explain the arrangements in place for producing the 2021/22 Accounts on the basis that this activity will be completed by **30 June 2022**.

4. Arrangements for closure of the 2021/22 Accounts

- 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 overview of these key strands of activity and the deadlines we are working to this year.

Determining the Provisional Outturn position

- 4.2 The activities necessary to determine the revenue and capital outturn positions are primarily focussed on determining whether income and expenditure should be recognised in the accounts for this year, or a later year. This is because the Council is obliged to reflect income and expenditure in the accounts in the year in which the effects of the expenditure and income are experienced, even if the cash is received or paid in the preceding or subsequent financial year.

- 4.3 Significant input is required from budget holders to complete this activity. Specifically, budget holders are required to identify any:
- Income earned but not received at 31 March 2022.
 - Expenses incurred but not yet paid at 31 March 2022.
 - Any amounts already received/paid that relate to goods or services to be provided or received after 31 March 2022.
 - Any amount that may need to be paid to settle an obligation that exists at 31 March 2022, but the requirement to make this payment is uncertain.

Budget holders are required to submit this information via a Web Based Tool during the period **30 March** to **5 April**, although the Tool will be available before **30 March**, to enable budget holders to start work on their returns prior to the submission deadline. Guidance has been issued, and a series of communications are planned in the run up to the **5 April** deadline, to ensure that budget holders are aware of what is expected from them.

- 4.4 Finance will process budget holder returns, and action any other accounting entries necessary to finalise services' outturn positions, by **22 April**.
- 4.5 Work will then commence on validating the provisional outturn position and on assessing the impact this has on the Council's reserves and balances.

Technical accounting activity

- 4.6 The main closure activities necessary to ensure compliance with generally accepted accounting practice are summarised as follows:
- Account for the consumption, revaluation, acquisition and disposal of the Council's Property, Plant and Equipment assets.
 - Restate payments made under PFI and lease contracts to separate the amounts paid for use of the assets from the amounts related to services provided under these contracts.
 - Account for the Council's share of Collection Fund surpluses / deficits and its share of the end of year balances in respect of Council Tax and Non-Domestic Rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments.
 - Replace employer's pension contributions with the cost of providing retirement benefits, based on information provided by the Pension Fund Actuary.
- 4.7 Statutory regulations permit / require the effect of these entries to be mitigated, ensuring that none of these adjustments impact on the Council's General Fund balance or other usable reserves.
- 4.8 Most of this work will be finalised during May 2022.

Group Accounts

- 4.9 In addition to the activities outlined above, which form the basis of entries within the Council's 'single entity' accounts, the Council is also required to produce 'group' accounts. The 'group' accounts will consolidate the Council's own accounts with those of Essex Cares Ltd and the Essex Housing Development LLP, with transactions between all three entities being eliminated on consolidation.
- 4.10 The 'group' accounts will also be produced in May, depending on the availability of the draft accounts for Essex Cares Ltd and the Essex Housing Development LLP for 2021/22.

5. Related matters

- 5.1 The Council is required to produce its Statement of Accounts in compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code). The Code is based on International Financial Reporting Standards.
- 5.2 As part of the series of measures announced by the Government in **December 2021** to improve timeliness of auditor reporting, CIPFA/LASAAC recently consulted on two time-limited changes to the Accounting Codes for 2021/22 and 2022/23. There were two consultation proposals:
- Pause the requirements for professional valuation of operational property, plant and equipment assets in the 2021/22 Code and (at least) the 2022/23 Code, with the possibility of mitigating the effect of this through the application of centrally determined indices.
 - Deferring the implementation of International Financial Reporting Standard 16 Leases (**IFRS 16**) until 2023/24 (this accounting standard is currently due to be adopted in the 2022/23 accounts).
- CIPFA/LASAAC is clear that these measures are proposed as a temporary expedient to help improve an unacceptable position, and that they do not represent the best form of financial reporting that CIPFA/LASAAC seeks to promote in every edition of the Accounting Code.
- 5.3 The consultation closed on **3 March 2022**. At the time of writing, the outcome of the consultation is unknown. However, if the consultation proposals related to the 2021/22 Accounting Code are endorsed, it is anticipated that the amended Accounting Code will come into force before **31 March 2022**.
- 5.4 For the time being, work continues, on the basis that neither of the above proposals are endorsed.

6. Arrangements for audit and approval of the Statement of Accounts

- 6.1 It is currently anticipated that the draft Statement of Accounts for 2021/22 will be ready by the end of June 2022. On that basis, the draft accounts will be:
- Presented to the Audit, Governance and Standards Committee for information on **27 June 2022**.
 - Released for public inspection and external audit on **1 July 2022**.
- 6.2 However, as already noted, if it is not possible for the external auditor to issue the opinion on the 2020/21 accounts soon, there may be some slippage in the above timelines.
- 6.3 As already noted, it is anticipated that the deadline for publication of final, audited, accounts for 2021/22 will be deferred from **30 September 2022** to **30 November 2022**. That being the case, it is expected that the Audit Completion Reports for the Council and Essex Pension Fund will be presented to the Committee in late November, at which stage, the Committee will also be asked to approve the Statement of Accounts for publication.

7. Whole of Government Accounts

- 7.1 The Whole of Government Accounts (WGA) initiative, which has statutory backing, is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. English local authorities are the largest element of this consolidation process. The WGA return is based on, but is separate to, authorities' statutory financial statements.
- 7.2 At the time of writing this report, HM Treasury has still not provided the timetable and guidance on the arrangements for production and audit of the 2020/21 WGA return. It is not therefore possible to estimate the timelines and arrangements for completion of the 2021/22 WGA return yet.

8. External Audit Plan

- 8.1 Because of the delay to completion of the 2020/21 audit, production of the Audit Planning Reports for 2021/22 have also been delayed. These will be produced and presented to the Committee as soon as possible after conclusion of the 2020/21 audit.
- 8.2 The Audit Planning Reports will explain the work that BDO LLP plans to perform to provide their opinion on the Council's and Essex Pension Fund's Financial Statements for 2021/22, and their commentary on the Council's arrangements to secure value for money in its use of resources.
- 8.3 The Audit Planning Reports will also include the proposed fees for the 2021/22 audit.

9. Policy context and Outcomes Framework

- 9.1 The Statement of Accounts for 2021/22 will summarise the financial performance and financial position for the Council for the year ending 31 March 2022. As such, the Statement of Accounts will provide a financial representation of activities during 2021/22 against the Organisation Plan.

10. Financial Implications

- 10.1 There are no specific financial implications associated with this report.

11. Legal Implications

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

12. Staffing and other resource implications

- 12.1 Closure of the accounts is a significant activity that requires substantial input from Finance staff over a relatively short period of time. Whilst the Finance team is appropriately resourced for closure activity in normal circumstances, it is not resourced to continue to support the 2020/21 audit and WGA processes alongside of this activity. Therefore, whilst closure related activity for 2021/22 will continue to be prioritised, it is possible that there will be some slippage against the current plan for the 2021/22 Accounts.

13. Equality and Diversity implications

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

14. List of appendices

- 14.1 None

15. List of Background Papers

- 15.1 None