

Agenda item 6
AGS/02/21

Report title: Closure of Accounts 2020/21	
Report to: Audit, Governance and Standards Committee	
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Date of meeting: 22 March 2021	For: Approval
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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 2020/21 accounts, and for production and approval of the Statement of Accounts.

2. Recommendations

- 2.1 The Committee notes the arrangements in place for closure and approval of the Council's Accounts for 2020/21.
- 2.2 The Committee agrees, as a consequence of changes to the statutory timetable for production and publication of the 2020/21 Statement of Accounts, to:
- Cancel the meetings it currently has scheduled for **7 June** and **26 July 2021**.
 - Schedule a new meeting on **28 June 2021** to receive the draft Statement of Accounts for 2020/21.
 - Note the intention to now present the 2020/21 Statement of Accounts to the Committee for approval on **27 September 2021**.

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**.
- 3.3 The Government issued a light touch consultation on the Accounts and Audit Regulations 2015 on **9 February 2021**, seeking views on proposals to amend the deadlines for the 2020/21 and 2021/21 Accounts, as follows:
- Publication of draft accounts for inspection extended from 31 May to **31 July**.
 - Publication of final accounts extended from 31 July to **30 September** (in line with the recommendations of the Redmond Review).

The consultation closed on **1 March 2021**.

- 3.4 The proposed amendments to the Accounts and Audit Regulations 2015 were laid before Parliament on **9 March 2021** and come into force on 31 March 2021. As a consequence of the changes to the statutory deadlines, it is intended to:
- Defer publication of the draft accounts for 2020/21 from 31 May to **30 June 2021**.
 - Plan for completion of the 2020/21 audit on or by **30 September 2021**.

It will be necessary to reschedule the June meeting of the Committee (from 7 June 2021 to **28 June 2021**) and to cancel the **26 July 2021** meeting as a consequence of these changes.

- 3.5 The following paragraphs explain the arrangements in place for producing the 2020/21 Accounts on the basis that this activity will now be completed by **30 June 2021**.

4. Arrangements for closure of the 2020/21 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 2021.
 - Expenses incurred but not yet paid at 31 March 2021.
 - Any amounts already received/paid that relate to goods or services to be provided or received after 31 March 2021.
 - Any amount that may need to be paid to settle an obligation that exists at 31 March 2021, 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 **7 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 **7 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 and 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 2021.

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 consolidate the Council's own accounts with those of its larger local trading companies, with transactions between the entities being eliminated on consolidation.
- 4.10 In previous years, the only entity included within the Council's Group Accounts was Essex Cares Ltd. From 2020/21, the Essex Housing Development LLP may also be consolidated; the Essex Housing Development LLP is a new entity established by the Council during 2020/21 to identify and bring forward surplus land in order to help address general, specialist and affordable housing need.
- 4.11 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 2020/21.

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 It was originally the intention of the CIPFA / LASAAC Code Board to incorporate the requirements of **International Financial Reporting Standard 16 Leases** (IFRS 16) into the version of the Accounting Code applicable for the 2020/21 financial year. However, due to concern about the pressure on council finance teams as a consequence of the COVID-19 pandemic, the CIPFA / LASAAC Code Board initially deferred adoption of IFRS 16 to the **2021/22** financial year and subsequently to the **2022/23** financial year. This decision aligns with the proposals across the public sector.
- 5.3 The decision to defer adoption of IFRS 16 now means that there are no significant changes in accounting practice required for 2020/21.

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

- 6.1 The draft Statement of Accounts will be presented to the Audit, Governance and Standards Committee on **28 June** (subject to the Committee agreeing to meet on this date), for information only.
- 6.2 The period for the exercise of public rights will commence on **1 July** and run for a period of 30 working days. During this period, the public have the right to raise objections, inspect the accounts and question the Local Auditor.
- 6.3 The draft Statement of Accounts will also be presented for external audit on **1 July**.
- 6.4 The Committee will meet on **27 September** to consider the Audit Completion Reports and to approve the Statement of Accounts for publication. The Committee will be required to consider the external auditor's findings before authorising the accounts for issue.

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 have yet to provide the timetable and guidance on the arrangements for production and audit of the WGA return. For planning purposes, it has been assumed that the timetable will be consistent with that for 2019/20.

8. External Audit Plan

- 8.1 The 2020/21 Audit Planning Report is presented elsewhere on the Agenda and explains the work that BDO LLP plans to perform to provide their opinion on the Council's Financial Statements and its arrangements to secure economy, efficiency and effectiveness.
- 8.2 The Audit Plan also includes the proposed fee for the 2020/21 audit.

9. Policy context and Outcomes Framework

- 9.1 The Statement of Accounts for 2020/21 will summarise the financial performance and financial position for the Council for the year ending 31 March 2021. As such, they will provide a financial representation of activities during 2020/21 against the Corporate 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. The closure activity is appropriately resourced and prioritised to ensure that key deadlines can be achieved.

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