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| Report to: | Audit and Governance Committee | Date of Meeting: | Wednesday 15 December 2021 |
| Subject: | Statement of Accounts 2020/2021 | | |
| Report of: | Executive Director of Corporate Resources and Customer Services | Wards Affected: | (All Wards); |
| Portfolio: | Cabinet Member - Regulatory, Compliance and Corporate Services | | |
| Is this a Key Decision: | No | Included in Forward Plan: | No |
| Exempt / Confidential Report: | No | | |

Summary:

To present the final audited 2020/2021 Statement of Accounts, including the Annual Governance Statement, for consideration and approval. In addition, the proposed "Letter of Representation" letter from Sefton to Ernst & Young LLP (EY) is attached for approval.

Recommendation(s):

The Audit and Governance Committee is asked to:

- (1) Note the Ernst & Young LLP Audit Planning Report for 2020/2021.
- (2) Approve the 2020/2021 Statement of Accounts, subject to the final completion of the audit.
- (3) Delegate authority to the Chair to approve the final Statement of Accounts following completion of the audit, should any changes be required to the current version approved by this Committee.
- (4) Note the intention to bring an update report to this Committee in March which will detail any changes that were made.
- (5) Approve the Annual Governance Statement (Section 11 of the Statement of Accounts).
- (6) Note the comments of Ernst & Young LLP.
- (7) Approve the Letter of Representation, subject to completion of the audit, and Authorise the Chair and the Executive Director of Corporate Resources and Customer Services to sign it on the Council's behalf.

- (8) Delegate authority to the Chair and the Executive Director of Corporate Resources and Customer Services to sign on the Council's behalf a revised Letter of Representation should the approved version need to be updated following the completion of the audit.
- (9) Note the intention to seek approval from Council to procure external audit services through the Public Sector Audit Appointments body.

Reasons for the Recommendation(s):

The Council, or nominated Committee charged with responsibility for Governance, must approve the Statement of Accounts, including the Annual Governance Statement. The Audit and Governance Committee has been delegated with this responsibility and is required to approve the audited Accounts for 2020/2021 prior to its publication.

The deadline for publication was 30 September 2021. However, the regulations allow for a delay in publication where the audit has not yet been completed. This report explains that there has been a delay in completing the audit for 2020/2021. The audit is now largely complete, so the Statement of Accounts is now being presented for approval.

Alternative Options Considered and Rejected: (including any Risk Implications)

None

What will it cost and how will it be financed?

(A) Revenue Costs

None

(B) Capital Costs

None

Implications of the Proposals:

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| <p>Resource Implications (Financial, IT, Staffing and Assets): None</p> |
| <p>Legal Implications: This report complies with legislation, particularly the requirements of the Accounts and Audit (England) Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021.</p> |
| <p>Equality Implications: There are no equality implications.</p> |
| <p>Climate Emergency Implications:</p> |

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| The recommendations within this report will | |
| Have a positive impact | N |
| Have a neutral impact | Y |
| Have a negative impact | N |
| The Author has undertaken the Climate Emergency training for report authors | N |

Contribution to the Council's Core Purpose:

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| Protect the most vulnerable: Not applicable |
| Facilitate confident and resilient communities: Not applicable |
| Commission, broker and provide core services: Not applicable |
| Place – leadership and influencer: Not applicable |
| Drivers of change and reform: Not applicable |
| Facilitate sustainable economic prosperity: Not applicable |
| Greater income for social investment: Not applicable |
| Cleaner Greener: Not applicable |

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services is the author of this report (FD 6644/21).

The Head of Regulation and Compliance (LD 4845/21) has been consulted and has no comments on the report.

(B) External Consultations

None

Implementation Date for the Decision

Immediately following the Committee meeting.

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Appendices:

The following appendix is attached to this report:

Appendix A – Audit Planning Report 2020/2021 – Ernst & Young LLP

Appendix B – Statement of Accounts 2020/2021

Appendix C – Audit Results Report 2020/2021 – Ernst & Young LLP

Appendix D – Letter of Representation 2020/2021

Background Papers:

There are no background papers available for inspection.

1. Background

- 1.1 Since 2010/2011 the Audit and Governance Committee has only been required to approve the Statement of Accounts following the completion of the Audit. Since 2017/2018 this has taken place at the special meeting of this Committee in July (approval and publication of the audited Statement of Accounts was required by 31 July).
- 1.2 However, for 2021/2022 and 2022/2023 the deadline for approving the audited Statement of Accounts has been changed to 30 September (with a deadline of 31 July for the publication of the draft accounts). This was in response to the Redmond Review into the audit of local government which highlighted the fragility of the local audit market. The Government intend to review at that point whether there is a continued need to have an extended deadline.
- 1.3 The audit of the Statement of Accounts commenced in late July. It should be noted that due to delays in completing the audit of the 2019/2020 Statement of Accounts, no interim audit was undertaken, which has been possible in previous years. By September, a significant amount of audit work for 2020/2021 had been completed following provision of all required information and currently no key issues have been notified to the Council. However, as there was work outstanding, including confirmation from outside bodies, the audit wasn't completed by the end of September.
- 1.4 Although regulations require the publication of the Statement of Accounts for 2020/2021 by 30 September 2021, the same regulations allow for this to be delayed where the audit has yet to be concluded. This delay needs to be published on our website. The publication of the final Statement of Accounts needs to take place *“as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor’s final findings from the audit which is issued before the conclusion of the audit”*.
- 1.5 Sefton and EY agreed a workplan so that the final audited accounts could be presented to the December committee for approval.
- 1.6 At the time of writing this report, Ernst & Young (EY) have now completed the majority of the audit of the 2020/2021 Statement of Accounts with only a few areas still to be completed. The report from EY on the financial statements (including formal opinion on the accounts) is discussed in Sections 4 and 5 (their report is attached as Appendix C).
- 1.7 As part of the formal process to approve the Accounts, the Committee is also required to authorise Sefton’s “Letter of Representation” to EY. This basically acknowledges the Council’s responsibilities in preparing the Accounts and confirms whether there have been any material changes to the financial circumstances contained in the Accounts that EY should be made aware of. This is considered further in Section 7 (draft letter is attached as Appendix D).

1.8 In addition, Section 3 discusses the content of the Statement of Accounts, the approval of the Annual Governance Statement is considered in Section 4 and the intention to seek approval from Council to procure external audit services through the Public Sector Audit Appointments body is discussed in Section 8.

2 EY Audit Planning Report 2020/2021

2.1 The Council's external auditor, Ernst and Young LLP (EY), were engaged to undertake the Council's audit for 2020/2021. Attached as **Appendix A** is their Audit Planning Report which sets out how they intend to carry out their responsibilities as auditor. This includes setting out an overview of the 2020/2021 audit strategy including an assessment of key risks and the planned audit strategy in response to those risks.

2.2 EY's Audit Planning Report should have been presented to Audit and Governance Committee at either the March or June Committee meetings before the commencement of the audit. Unfortunately, due an oversight, this didn't take place. The report is now being presented to Members so they can consider it alongside the Audit Results report (see Section 5).

3 The Content of the Statement of Accounts

3.1 The 2020/2021 Statement of Accounts is an important document, which aims to provide clear information about the Authority's finances for the year and is intended to answer:

- What the Authority's services cost for the year?
- Where the money comes from to pay for these services?
- What were the Authority's assets and liabilities at the year-end?

3.2 On 27 February 2020, the Council approved a revenue budget for 2020/2021 of £225.885m which included £1.179m relating to the expenditure of Parish Councils.

3.3 At that time, it was anticipated that balances for non-school budgets would total £7.539m at 31 March 2021. As a result of an overspend of £0.555m in 2019/2020 the anticipated year-end balances position was revised to £6.984m. The 2020/2021 Budget assumed an increase in general balances of £1.5m as part of a strategy to increase balances and ensure financial resilience.

3.4 Overall, actual expenditure for 2020/2021 on General Fund services (excluding Schools' delegated expenditure) was £2.794m lower than the Base Estimates which has increased General Fund Balances further. The Authority's Non-School General Fund balances at 31 March 2021 shown in the Statement of Accounts are therefore **£11.278m**.

3.5 The Statement of Accounts (attached as **Appendix B**) are also important in:-

- Demonstrating proper stewardship of public monies;
- Providing evidence of the quality and robustness of the Authority's financial systems and processes;

- Indicating that current financial performance, monitoring and the Medium-Term Financial Plan are integrated processes which will assist the Council in improving its financial standing;
- Providing the key financial information, which will enable future plans and decisions to be made on the basis of known facts and available financial resources; and
- Providing a key line of communication to stakeholders on the Council's current financial performance. The draft Statement of Accounts was available online on Sefton's website from the beginning of August 2021.

3.6 The Statement of Accounts includes a Narrative Report, which focuses on the most significant matters reported in the document. A brief explanation of each Section is also provided (highlighting what it is intended to show) to aid the understanding of the Accounts.

3.7 For 2020/2021 there have been no significant changes to how the Statement of Accounts are produced or presented.

3.8 The statutory declaration by the Executive Director of Corporate Resources and Customer Services in the Statement represents his approval of the Accounts. Following approval of the Statement of Accounts by the Audit and Governance Committee, the Chair of the Committee will be required to sign the Accounts along with the external auditor completing their statutory certification in relation to his opinion on the financial statements.

3.9 As mentioned in paragraph 1.6, there are still some areas of audit work that have yet to be completed. EY will give a verbal update at the Committee of the work still outstanding. Should there be any changes required to the Statement of Accounts as a result of the work completed after this Committee's approval of the Statement of Accounts, it is proposed to delegate authority to the Chair to approve these changes. A report will then be presented to the March Committee to detail any changes made.

4 Annual Governance Statement

4.1 The "Annual Governance Statement" is required to be presented with the Statement of Accounts. The statement is included as section 11 of the Council's Accounts and needs to be formally accepted by this Committee.

5 Significant Accounting Matters / Corrected Misstatements

5.1 The EY Report to those charged with Governance is attached at **Appendix C**. It gives details of the significant audit and accounting matters to consider and the material misstatements identified as part of their audit work which have been corrected. These items are listed below, and more details will be found in the EY Report:

5.2 Areas of Audit Focus:
EY had seven main areas of audit risk and areas of focus:

- Misstatements due to fraud or error (Fraud Risk).
- Risk of fraud in revenue and expenditure recognition (Fraud Risk).
- Valuation of pension fund assets and liabilities in the Local Government Pension Scheme (Significant Risk).
- Valuation of land and buildings (Significant Risk).
- New Central Government Grants and other Covid-19 funding streams (Significant Risk).
- Investments and Subsidiaries (Inherent Risk).
- Going Concern (Inherent Risk).

No significant issues have been found by EY.

5.3 Adjusted Differences within Main Financial Statements:

- Following the audit of the Merseyside Pension Fund accounts, it was found that the value of assets had increased towards the end of 2020/2021 from those used by the actuaries in calculating the amounts to be disclosed in the accounts of the individual local authorities. Given the materiality of the changes, the actuary has produced updated disclosures, and these have been reflected in the final accounts. This has reduced the Pension Liability and Reserve by **£16.459m**.

The following two changes are below EY's reporting threshold so are not mentioned in their report:

- Following testing by EY it has been determined that two Investment Properties needed to have their valuations updated. This has reduced the overall value of Investment Properties by **£4.000m**.
- During the audit it was determined that an adjustment was required to the Balance Sheet reflect the true nature of an Adult Social Care payment run. This has reduced Prepayments by **£3.599m**, with corresponding reductions in Creditors (**£3.149m**) and Receipts in Advance (**£0.450m**).

It should be noted that these adjustments have no impact on the General Fund position reported in paragraph 3.3.

5.4 A number of presentational and disclosure amendments have also been made to comply with requirements and to improve consistency and understanding.

5.5 The Statement of Accounts will need to be adjusted if any further items are identified by EY. These items will be reported verbally at the Committee meeting.

6 Ernst & Young's Report to those charged with Governance

6.1 The report covers the audit of the Statement of Accounts and Value for Money work undertaken by EY. Staff from EY will be present at the meeting to provide a brief summary of the issues contained in the report and to answer any questions Members may have.

- 6.2 With regard to the Accounts issues, these are discussed in Section 4 above. At the time of writing the report, EY had a small number of areas to complete; however, they anticipate that an unqualified opinion will be issued.
- 6.3 EY have a responsibility to carry out sufficient and relevant work in order to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. EY anticipate issuing an unqualified value for money conclusion which has been based on a local programme of audit work.
- 6.4 EY's report also makes recommendations in relation to weaknesses identified in internal control systems. Officers have considered the recommendations and the report includes their response to each issue.

7 Letter of Representation

- 7.1 The Council is required to provide a letter of representation to the Auditor at the conclusion of the audit. This acknowledges the Council's responsibilities in preparing the Accounts and provides the assurance to EY that no new information or decisions have been taken that would materially affect the Statement of Accounts for the year. Sefton's letter is attached at **Appendix D**. No issues or decisions have been made / need to be disclosed. The letter has to be signed by the Chair of the Audit and Governance Committee and the Executive Director of Corporate Resources and Customer Services.
- 7.2 Should the approved version need to be updated following the completion of the audit, it is proposed to delegate authority to the Chair and the Executive Director of Corporate Resources and Customer Services to sign on the Council's behalf a revised Letter of Representation.

8 Intention to Procure External Audit Services through the Public Sector Audit Appointments body

- 8.1 Since the abolition of the Audit Commission, Sefton has procured its external audit services by opting into the national arrangements undertaken by Public Sector Audit Appointments Ltd (PSAA). The most recent procurement awarded Sefton's contract for 2018/2019 to 2022/2023 to Ernst & Young LLP. It should be noted that the vast majority of local authorities procure external audit services through the PSAA.
- 8.2 The Local Government Association is encouraging all local authorities to use the national arrangements for the next five-year procurement that is due to start from 2023/2024. They have circulated the following supporting information to local authorities to help inform their decision:

Information from the LGA for those charged with governance

The process for retendering for external audit in local authorities in England, for contracts due to start from 2023/24, is now underway and shortly the council will need to decide whether to procure its own external auditor or opt into the national procurement framework.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The deadline for this decision is the 11th March 2022. If the council doesn't make such a decision, the legislation assumes that the council will procure its own external audit, with all the extra work and administration that comes with it.

The national framework remains the best option councils can choose. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

The way external audit has operated over the last couple of years has been extremely disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. There is also a limited number of firms in the market and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019/20 and 2020/21. Auditors have also been asking for additional fees to pay for extra work.

As the client in the contract, a council has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. Essentially, councils find themselves operating in what amounts to a suppliers' market and the client's interest is at risk of being ignored unless we act together.

Everyone, even existing suppliers, agrees that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements, has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number councils sign up to the national scheme.

It is therefore vital that councils coordinate their efforts to ensure that the client voice is heard loud and clear. The best way of doing this across the country is to sign up to the national arrangement.

To summarise, the same arguments apply as at the time of the last procurement:

- *A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.*
- *The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.*
- *Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.*
- *Procuring for yourself provides no obvious benefits:*

- *The service being procured is defined by statute and by accounting and auditing codes*
- *Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).*
- *Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.*
- *PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:*
 - *PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects MHCLG's confidence in them as an organisation.*
 - *PSAA has commissioned high quality research to understand the nature of the audit market.*
 - *It has worked very closely with MHCLG to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year.*

8.3 Officers have considered the views of the Local Government Association and agree that continuing with procuring external audit services through the national arrangements would be in the best interests of the Council. The intention is, therefore, to seek approval from Budget Council on 3 March 2022 to procure external audit services through the Public Sector Audit Appointments body, subject to the views of Members of this Committee.