

Essex County Council

Auditor's Annual Report: Years ended 2021/22 and 2022/23

31 March 2022

31 March 2023

Report to the Audit, Governance and Standards Committee

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Welcome

Executive Summary

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This Auditor's Annual Report provides a summary of the key issues arising from our audit of Essex County Council (the 'Council') for the year ended 31 March 2022 and 31 March 2023.

Financial statements

We issued an unqualified opinion on the Council's financial statements for the year ended 31 March 2022 on 21 November 2024.

We plan to issue an unqualified opinion on the financial statements for the year end 31 March 2023 by 29 November 2024.

Where an opinion is unqualified, this means that we consider that the financial statements give a true and fair view of the financial position and its expenditure and income for the year.

Value for money

The revised Code of Audit Practice 2024 came into force on 14 November 2024. The revised Code allows auditors to issue a combined commentary on value for money arrangements for outstanding audits up to and including 2022/23 in a single report against a reduced set of criteria, focused on financial sustainability and governance arrangements.

We have not identified any significant weaknesses in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources having regard to the specified criteria in the Code.

Other reporting

We did not consider it necessary to use our auditor powers or report on other matters.

The contents of this report relate only to those matters which we are required to report under the NAO Code of Audit Practice (November 2024). This report has been prepared solely for the use of the Council and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.



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Purpose and responsibilities

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Purpose of the Auditor's Annual Report

This Auditor's Annual Report summarises the key issues arising from the work that we have carried out in respect of the years ended 31 March 2022 and 31 March 2023.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibilities of the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

The Council is also responsible for preparing and publishing its financial statements, annual report and governance statement.

Responsibilities of auditors

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice - November 2024 (the 'Code').

Under the Code, we are required to review and report on:

- Whether the financial statements give a true and fair view of the financial position of the Council and of its income and expenditure for the year and have been properly prepared in accordance with the relevant legislation;
- Whether the other information published

together with the financial statements is consistent with the financial statements;

- Whether the governance statement complies with the guidance issued;
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- Where appropriate, make statutory recommendations, refer matters to the Secretary of State or issue a Public Interest Report.



Financial statements

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Audit conclusion - year ended 31 March 2022

We issued an unqualified audit opinion on the financial statements on 21 November 2024.

This means that we consider that the financial statements give a true and fair view of the financial position and its expenditure and income for the year.

We reported findings whilst the audit was in progress, but substantively complete, to the 29 July 2024 Audit, Governance and Standards Committee and presented our final findings on 23 September 2024.

Significant deficiencies in controls

We did not identify any significant control deficiencies during the audit of the financial statements.

Audit differences

The following material misstatements were identified during the audit:

- The net pension liability recognised on the balance sheet has decreased by £77.468 million to reflect the outcome of the triennial valuation of Essex Pension Fund at 31 March 2022. This is an accounting adjustment and does not affect the Council's usable reserves or the value of contributions paid into the scheme during 2021/22.
- Cash inflows associated with capital grants used to finance revenue expenditure financed from capital under statute (REFCUS) have been reclassified from investing activities to operating activities on the face of the cash flow statement. This adjustment mirrors the classification of the cash outflows which are funded by these grants. The value of the grants reclassified in 2021/22 is £47.742 million and the value of grants reclassified in 2020/21 is £47.794 million. This matter is presentational in nature and has no impact on the value of the cash balances held by the Council at 31 March 2022.

We identified audit adjustments that, if posted, would reduce reported surplus on the provision of services by £4.152m. Management did not adjust the financial statements for these items as the impact was not material.

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Audit conclusion - year ended 31 March 2023

We plan to issue an unqualified audit opinion on the financial statements by the 29 November 2024.

This means that we consider that the financial statements give a true and fair view of the financial position and its expenditure and income for the year.

We reported findings whilst the audit was in progress, but substantively complete, to the 28 October 2024 Audit, Governance and Standards Committee.

Significant deficiencies in controls

We did not identify any significant control deficiencies during the audit of the financial statements.

Audit differences

The audit identified no material misstatements.

We identified audit adjustments that, if posted, would increase the reported deficit on the provision of services by £5.025m.

Management did not adjust the financial statements for these items as the impact was not material.

Whole of Government Accounts

We expect the Comptroller and Auditor General to issue their opinion on the Whole of Government Accounts on 22 November 2024, beyond which no further work will be required by component auditors in relation to the year ended 31 March 2023.

Value for Money

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Scope

We are required to review and report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in these arrangements, we are required to report this in the auditor's report included in the financial statements and to make recommendations for improvement in the Auditor's Annual Report.

Specified criteria

The NAO has issued guidance for auditors to report against three specified reporting criteria:

- Financial sustainability - planning and managing resources to ensure the Council can continue to deliver its services
- Governance - informed decisions and properly managing risks

The NAO guidance also includes a number of further areas for review within each criteria to allow the auditor to assess those arrangements.

Risk assessment

Our risk assessment did not identify any potential significant weaknesses.

Audit conclusion

We have not identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

For the two financial years covered by this report, we had no matters to report by exception in the audit report on the financial statements. We also have no matters to report in our closing audit certificate, on completion of our work on the Council's value for money arrangements.

We have raised two recommendations regarding the monitoring and implementation of matters identified by Internal Audit (see page 15).



Financial Sustainability

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Auditor's commentary on arrangements

How significant financial pressures relevant to short and medium-term plans are identified and built into plans

The Council's Organisation Plan for 2021/22 and Annual Plan for 2022/23 (as presented to Full Council) include the Financial Strategies for 2021/22 to 2024/25 and 2022/23 to 2025/26 respectively, as well as the Revenue Budget, Capital Budget and level of Reserves. The Financial Strategies note that the Council continues to recognise the challenging financial situation and its approach for the Financial Strategy (to ensure ECC continue to live within its means and at the same time deliver essential services and keep council tax as low as possible) remained unchanged from 2020/21 for both 2021/22 and 2022/23.

The uncertainty of long-term funding and difficulty in longer term planning was noted in both Financial Strategies. For both 2021/22 and 2022/23, financial pressures on the budget are reflected in the Section 151 Officer's Report. In addition to the known pressures on the 2022/23 budget, the Section 151 Officer's Report also noted emerging risks being managed through the reserves strategy such as inflation and borrowing risk on the capital programme and demand and price pressures in Children's social care.

For 2021/22, Internal Audit (IA) performed a Budgetary Control review to evaluate the control design and test operating effectiveness of key controls in place over budgetary control and medium-term resource strategy. A Satisfactory Assurance opinion was issued. While

IA did not perform such a review in 2022/23, the review in 2020/21 also achieved a Satisfactory Assurance opinion demonstrating regular review by IA of this area.

Cabinet meeting minutes for 2021/22 and 2022/23 evidenced quarterly reporting of the Council's current forecast financial position of the revenue and capital budgets.

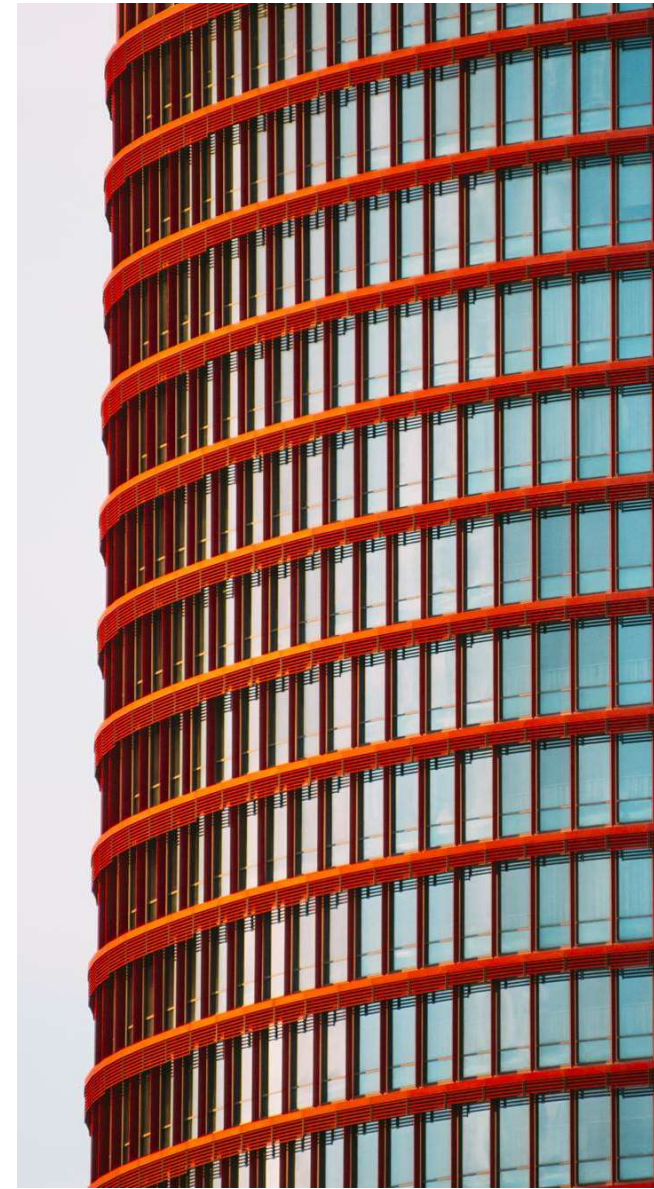
We note that the Council continued to recognise the financial challenge also as an opportunity to challenge how services are provided.

Plans to bridge funding gaps and to identify achievable savings

The 2021/22 budget assumed £46 million (4% of net budget) of savings to balance the budget, of which 65% was recurrent and 35% one off savings.

For 2022/23, the budget assumed £36 million (3% of net budget) of savings to balance the budget, comprising 89% recurrent and 11% one off savings. The s151 Officer Report acknowledged the reliance on one off savings is less than in recent years and that while it carried an acceptable level of risk, this will still need to be appropriately managed through the 2023/24 budget.

The Council identified the main drivers for the budget gap in the Section 151 Officer Reports and, as for 2020/21, inflation was identified by the Council to be the most significant driver of the budget gaps in both 2021/22 and 2022/23.



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The Council continued to recognise the challenges ahead and the Financial Strategies reflect consistent focus areas such as commercialism where possible, effective contract management, including the capital programme having elements which result in cash savings or reduced costs.

The Council has a good track record of delivering savings. We note that between 2020/21 and 2023/24, the level of savings delivered each year has reduced from 6% of net budget to 3% of net budget. Planned savings for 2025/26 are set at 3% of net budget. The consistent reductions in the level of savings delivered indicates that the Council is setting realistic savings targets which are not overly ambitious. However, with this downward trend, stringent focus on financial sustainability, realisation of the planned savings from focused areas, and identification of options to address the ever-present budget gap, are essential to ensure levels do not decrease to the point where no savings can be achieved.

The Corporate Policy and Scrutiny Committee (CPSC) work programme during 2022/23 included members raising the possible mitigation for planned savings at risk of non-delivery and asked for further detail on the weaknesses of savings projections.

For 2021/22, 2022/23 and 2023/24, the Council reported provisional outturns of £15.622 million (1.7%) underspend, £11.742 million (1.2%) underspend, and £13.476m (1.1%) underspend respectively against its balanced budgets, adding to the trend of delivering small underspends. A balanced budget has been set for 2024/25.

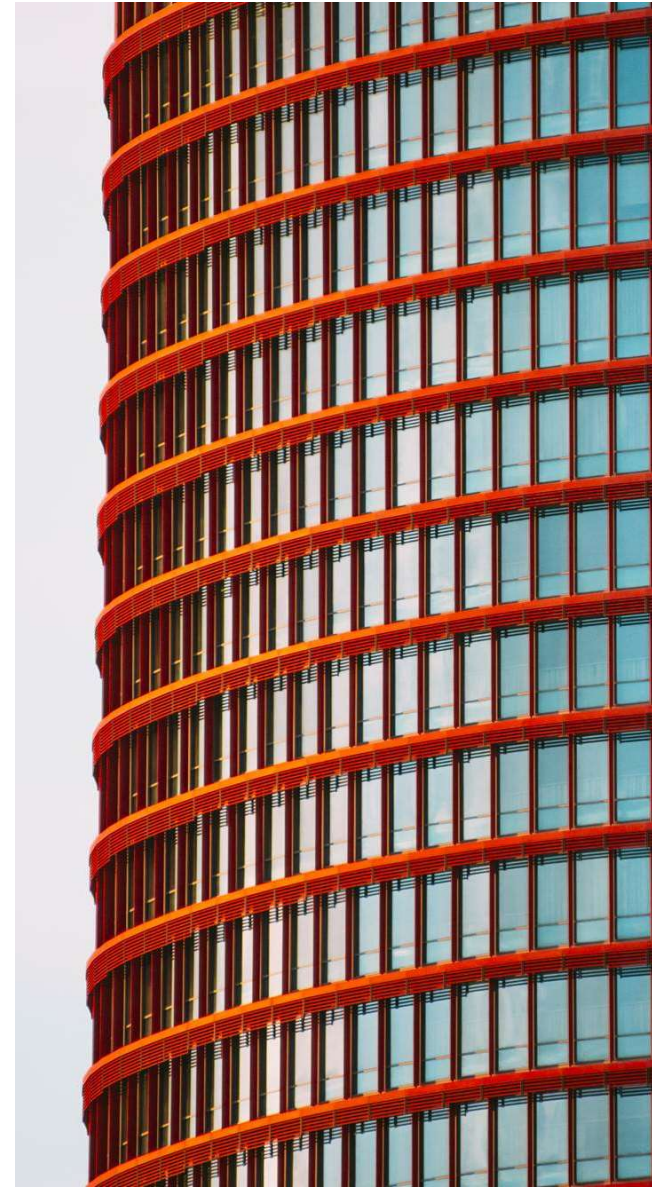
How financial plans support the sustainable delivery of services in accordance with strategic priorities

For 2021/22, the arrangements in the form of the Organisation Plan and Budget 2021/22, evidencing alignment of the Revenue Budget and Capital Programme with the Council's four strategic aims were the same as those for 2020/21.

In 2022/23, Everyone's Essex Annual Plan 2022/23, the first annual plan and budget since the current administration was elected in May 2021, was presented at the Full Council Meeting on 10 February 2022.

Everyone's Essex Annual Plan 2022/23 sets out the Council's four strategic aims, and includes the Financial Strategy 2022/23 to 2025/26, Revenue Budget 2022/23 and Capital Programme 2022/23. We note these strategic aims are different from those in 2021/22.

As in 2021/22, the Financial Strategy 2022/23 to 2025/26 states that the budget sets out the financial resources available to deliver the Council's statutory requirements, political priorities and the Annual Plan and therefore achieve the Strategic Aims. However, unlike 2021/22, where revenue and capital budgets which were further categorised by each Strategic Aim and then by Councillor portfolio, in 2022/23 the Revenue and Capital Budgets are only categorised by Councillor portfolio, rendering alignment with each strategic aim less obvious.



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Identification and management of risks to financial resilience e.g. unplanned changes in demand, including challenge of assumptions underlying its plans.

Risks associated with the 2021/22 and 2022/23 budgets, together with the control environment to help mitigate the risks, were highlighted in the respective Section 151 Officer Reports. We note that the control environment and further measures listed remained unchanged from 2020/21.

The respective Section 151 Officer Reports for 2021/22 and 2022/23 state that reserves play an essential part in the financial strategy and provide a cushion against the significant risks the Council faces, as well as providing a source of funding for business cases to change the way it provides services and achieves future savings.

The Section 151 Officer Report for 2022/23 stated that over the next four years the Council is anticipating the draw down trend will continue with the purpose of the funds shifting away from emergency responses towards investment in developing strategic priorities in line with the ambition of the Everyone's Essex plan. It was also stated that by 2024/25 it is anticipated that the balance of unrestricted reserves will have reduced to £138 million (a reduction of £87 million). Linked to the draw down of reserves, the CPSC's work during 2022/23 included members looking at the regulatory background to, and the Council's policy towards, reserves and provisioning and considered the different types of reserves that have been put in place. Members have challenged the sustainability of continuing to

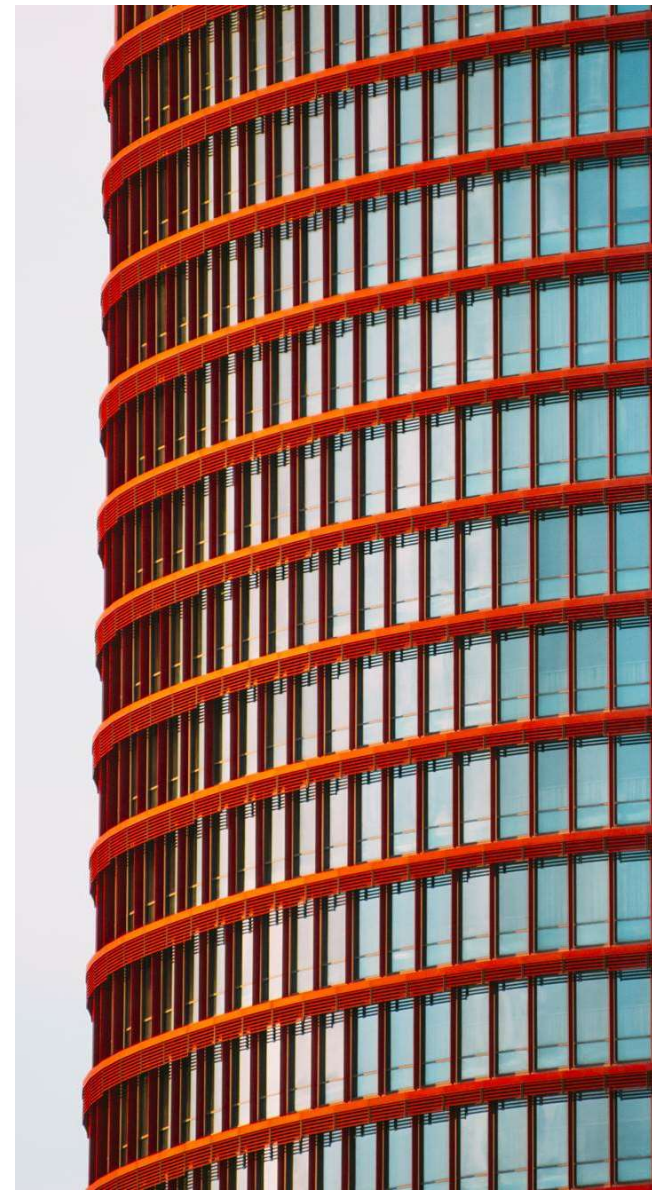
draw down over an extended period of time.

Conclusion

The Council has put in place arrangements to effectively plan and manage its resources.

In our 2020/21 VFM commentary we highlighted the increase in the budget gap forecast to a significant gap of £119m for 2025/26, reducing to £75m in 2026/27. The gap for 2026/27 is now forecast to be £23m with a forecast gap for 2027/28 of £51m.

With the downward trend savings levels, underspend trend and drawing down of reserves, we re-iterate the importance of stringent focus on financial sustainability, realisation of the planned savings from focused areas, and identification of options to address the ever-present budget gap.



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Auditor's commentary on arrangements

Risks are assessed and monitored to gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

During 2021/22 and 2022/23 the Council's Audit, Governance and Standards (AGS) Committee's responsibilities continued to include those relating to corporate governance, risk management, internal audit and anti-fraud and corruption.

In 2021/22 IA performed a Risk Management review in two parts, part one being a follow-up review and part two, a stakeholder feedback review. IA concluded that satisfactory progress had been made on the implementation of the actions identified from the 2020/21 review.

The Council's Risk Management Strategy was reviewed and updated during the year and the updated strategy approved at the AGS Committee meeting in March 2022. In 2022/23 IA's work around risk management was in the form of a risk maturity assessment reviewing compliance against the established ALARM National Performance Model for Risk Management in Public Services (the ALARM model) to obtain a high-level view of where the Council's Risk Management practices currently operate in relation to this maturity scale. For all areas assessed against the ALARM model, a score of either 3 (Moderate) or 4 (Good) was awarded for 2022/23.

During 2021/22 and 2022/23, the Council's IA function continued to be a key element of the Council's assurance framework delivering

reviews against the AGS Committee approved risk-based annual plans, providing progress updates, and tracking IA recommendations. In 2021/22, we have seen evidence of IA review of areas which are in their infancy or transitioning, focusing on control design and not control effectiveness. This demonstrates the council is proactive in engaging IA early vs after-the-fact e.g. Interim and Temporary Workers, Wellbeing (Employees); Integrated Waste Handling, Economic Renewal Fund

IA's overall Annual Opinion for both 2021/22 and 2022/23 is "Satisfactory". For both 2021/22 and 2022/23, there was a significant reduction in the number of "Limited" Assurance opinions compared to 2020/21.

The overview of the counter fraud activity included in the IA and Counter Fraud Annual Report for 2021/22, as presented to the AGS Committee, did not identify any matters we considered indicative of weaknesses in the Council's arrangements. From review of the IA & Counter Fraud Annual Report 2022/23, the Council's counter fraud arrangements appeared to be consistent with those in the previous year (2021/22) and again, did not identify anything we considered indicative of weaknesses in the arrangements.



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During 2022/23 we saw that the Counter Fraud and Corruption Strategy, Anti Bribery and Corruption Policy and Anti-Money Laundering Policy were reviewed and updated. The updates were presented at the AGS Committee meeting on 31 October 2022, where it was resolved to adopt the updated documents.

In our 2020/21 commentary we noted that it was not easy to locate the Council's whistleblowing policy on the Council's website and this was still an existing issue at that time of writing.

Effective systems and processes are in place to ensure budgetary control, to communicate relevant, accurate and timely management information, support statutory financial reporting requirements and ensure corrective action is taken where needed, including in relation to significant partnerships.

As previously mentioned in the Financial Sustainability section, Budgetary Control is a regular area of review by IA.

Our review of IA Reports for 2022/23 identified two major priority actions raised by IA with respect to the functionality and limitations of the s106 agreements database. Although not considered a significant weakness, it is still a weakness in the arrangements and should be remediated. However, from review of the latest available IA progress report presented to the AGS Committee in March 2024, we note that the recommended action implementation dates of April 2023 and October 2023 are now past due and no recent updates have been provided on

the progress, indicating that these weaknesses have not been satisfactorily resolved. We have raised a recommendation regarding this matter (see page 15).

The Council makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

The Council's Constitution is published on the website and as stated in the Council's Draft Annual Reports 2021/22 and 2022/23, Article 5 of the Constitution defines the responsibilities for decision making and the principles in accordance with which decisions must be made.

IA's review of Housing Infrastructure Fund (HIF) projects in 2021/22 raised a major priority action relating to a past event and indicative of a weakness in the associated decision-making arrangements. Based upon the actions being taken by the Council, we are not reporting this as a significant weakness. Following an update on a related item presented to the AGS Committee on 25th March 2024, we support the Committee's request to provide a written update on the wider lessons learned and implementation. However, we note that no date was set and have raised a recommendation (see page 15).





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Consistent with the prior year, the Council has four overview and scrutiny committees comprising:

- Corporate Policy and Scrutiny Committee
- Health Overview and Policy and Scrutiny Committee
- Place Services and Economic Growth Policy and Scrutiny Committee
- People and Families Policy and Scrutiny Committee

On the back of the Council's May 2021 elections, there were significant changes to the membership of the overview and scrutiny committees, with new chairmen appointed for all four of the committees. As a result, during 2021/22 the overview and scrutiny function underwent an element of transition and learning due to the new members and those new to scrutiny.

The Annual Scrutiny Report 2021/22, which includes the work undertaken by the function during the year and key pieces of work of each of the four committees highlighted by the respective chairmen, was presented at the Full Council meeting on 10 May 2022. The report also evidenced member training and development was under review during the year which supports the Council is taking the appropriate action to ensure the overview and scrutiny function effectiveness.

The Scrutiny Board Chairman also instigated a review into the effectiveness of the function intended to be completed by early summer 2022. The review analysed how scrutiny was

currently working at Essex and best practice examples from around the country.

For 2022/23, the Annual Scrutiny Report 2022/23 was presented at the Full Council meeting on 16 May 2023. Recommendations were agreed by the Scrutiny Board in Autumn 2022. During 2022/23, the Board has been overseeing progress against the recommendations.

In early 2024, the Council received adverse publicity in relation to payments made to social media personalities. The leader of the Council made an executive statement regarding the issue at a meeting of Full Council on 13 February 2024 and referred the matter to the Audit, Governance and Standards Committee for investigation. The Committee approved its Public Report on the matter at its meeting on 29 July 2024.

The Council has investigated the matter in detail through a process led by members of the Audit, Governance and Standards Committee. The Committee has made a series of recommendations in its Public Report which aim to improve and strengthen processes relating to procurement, declarations of interest and whistleblowing. In its public report, the Committee has made it clear that it will monitor the implementation of its recommendations.

The audit team are satisfied that the Council has taken appropriate action to address the issues identified.





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Conclusion

We have not identified any significant weaknesses in the Governance arrangements for 2021/22 and 2022/23.

We have raised two recommendations regarding the monitoring and implementation of matters identified by Internal Audit (see page 15).



Recommendations

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We have concluded throughout the report that the Council has appropriate arrangements in place and that we have not identified any significant weaknesses in relation to arrangements in any of the two criteria, Financial sustainability and Governance. No other significant weaknesses have come to our attention.

We have however noted throughout the report areas where the arrangements could be further enhanced in a small number of areas.

The National Audit Office's Code of Audit Practice advises that there is no expectation for auditors to make recommendations where they are satisfied that significant weaknesses identified have already been addressed by the Council.

	Area	Year affected	Significant weakness noted?	Recommendation	Management response
1	<u>Governance</u> IA's review of Housing Infrastructure Fund (HIF) projects in 2021/22 raised a major priority action. The AGS Committee requested a written update on wider lessons learned and implementation on 25 th March 2024, but no date was set.	2022/23	No	Set a date to provide the written update to the AGS Committee on the wider lessons learned. Add the item to the AGS Committee Work Programme.	The recommendation is accepted. A date will be agreed with the Audit, Governance and Standards Committee for providing a written update on the wider lessons learned.
2	<u>Governance</u> Two major priority actions raised by Internal Audit with respect to the functionality and limitations of the s106 Agreements database with recommended action implementation dates of April 2023 and October 2023 are now past due and no recent updates have been provided on progress.	2022/23	No	The AGS Committee to request that officers responsible for the implementation of the recommendations attend the next committee to provide an update on progress against the recommendations, including a revised target date.	The recommendation is accepted. A date will be agreed with the Audit, Governance and Standards Committee for the officers responsible for implementing the recommendations to provide an update on progress against the recommendations, including (if appropriate) a revised target date for completion.

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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