



Essex County Council Audit results report

Year ended 31 March 2018

30 July 2018



Private and Confidential

30 July 2018

Dear Audit, Governance and Standards Committee,

We are pleased to attach our audit results report for the forthcoming meeting of the Audit, Governance and Standards Committee. This report summarises our preliminary audit conclusion in relation to the audit of Essex County Council for 2017/18. This report summarises our preliminary audit conclusion in relation to the audit of Essex County Council for 2017/18.

We have substantially completed our audit of Essex County Council (the Authority) for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018. We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources, except for sustainable resource deployment arising from pressure from the economic environment. Please refer to section 5 for more detail.

This report is intended solely for the use of the Audit, Governance and Standards Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit, Governance and Standards Committee meeting on 30 July 2018.

Yours faithfully

Janet Dawson

Partner
For and on behalf of Ernst & Young LLP
Encl

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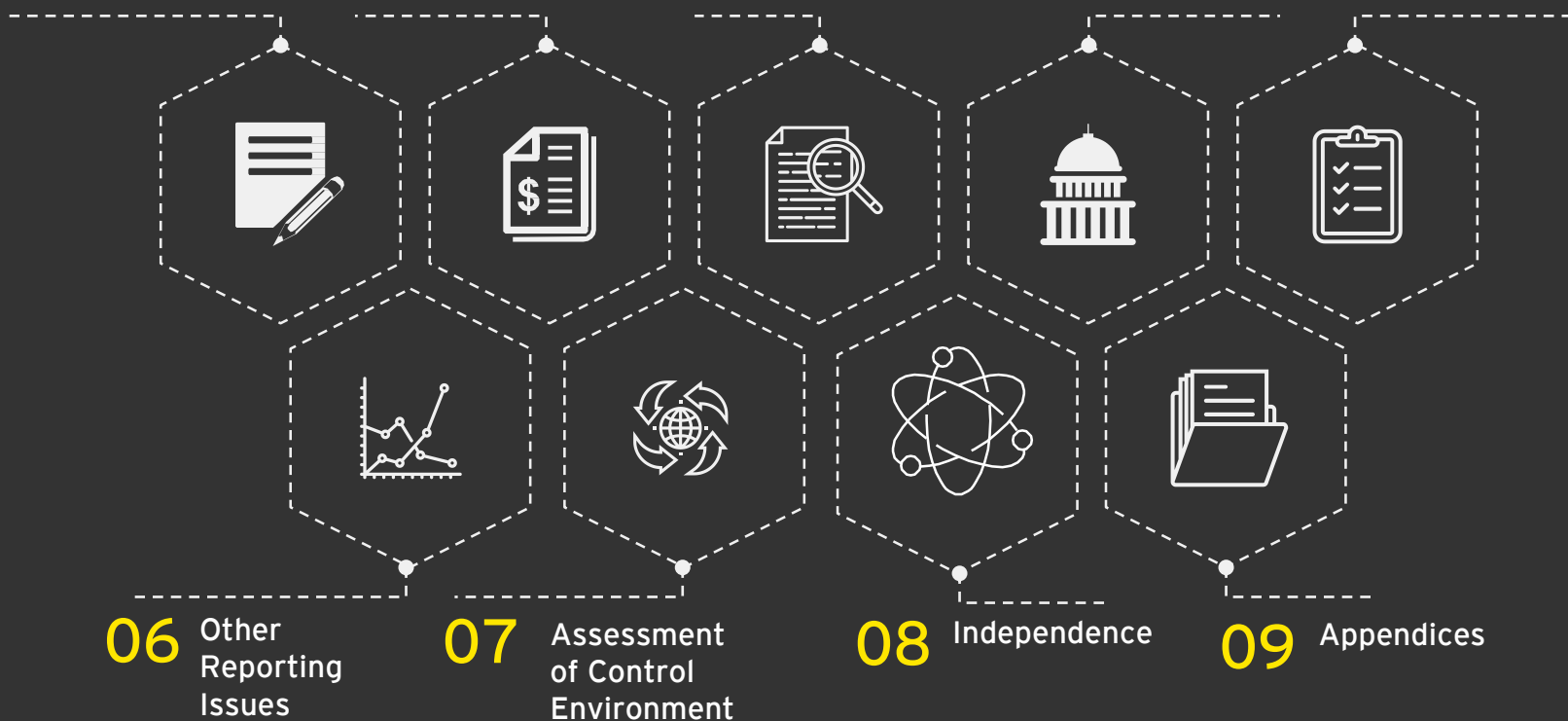
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit, Governance and Standards Committee and management of Essex County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit, Governance and Standards Committee, and management of Essex County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit, Governance and Standards Committee and management of Essex County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary



Executive Summary

Scope update

In our audit planning report tabled at the 26 March 2018 at the Audit, Governance and Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- ▶ A new value for money risk was identified for the Authority's growing commercialisation agenda, please refer to the table below.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

New VFM Risk - Description	Detail of changes to our scope
<p>Sustainable resource deployment: Commercialisation</p> <p>We have identified three main components on which to focus our review of the Authority's commercialisation agenda:</p> <ul style="list-style-type: none">▶ Garden Communities;▶ Property Investment Fund; and▶ Housing Project	<p>In order to address the risk we carried out a range of procedures, we have:</p> <ul style="list-style-type: none">▶ Reviewed the governance arrangements of the projects;▶ Reviewed the financial impact of these projects and potential risks;▶ Reviewed any associated laws and regulations; and▶ Assessed the risk to going concern.



Executive Summary

Status of the audit

We have substantially completed our audit of Essex County Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items set out below we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

The current outstanding areas are:

- ▶ Bank and investment confirmation;
- ▶ PFI;
- ▶ Cash Flow review;
- ▶ Review procedures;
- ▶ Receipt of the signed management representation letter; and
- ▶ Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

There are no unadjusted audit differences arising from our audit.

We have also identified audit differences with an aggregated impact of £42m which have been adjusted by management. Details can be found in Section 4 Audit Differences.



Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risks.

- Sustainable resource deployment: Pressure from Economic Environment.
- Take informed decisions: Waste Treatment Plant - Basildon.

We have also identified one new risk through the course of our audit:

- Sustainable resource deployment: Commercialisation.

We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources, except for sustainable resource deployment arising from pressure from the economic environment. Please refer to section 6 for more detail.



Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of Fraud in Revenue and Expenditure Recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

What judgements are we focused on?

We focused on:

- ▶ Understanding the controls put in place by management relevant to this significant risk.
- ▶ Considering whether or not purchase invoices were being inappropriately classified as capital.
- ▶ Whether management were inappropriately processing journals that transferred amounts from revenue to capital.

What did we do?

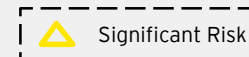
In order to address the risk we carried out a range of procedures, we have:

- ▶ Reviewed and tested revenue and expenditure recognition policies;
- ▶ Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- ▶ Evaluated business rationale for significant unusual transactions;
- ▶ Developed a testing strategy to test material revenue and expenditure streams; and
- ▶ Reviewed and tested revenue and expenditure cut-off at the period end date.

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.





Areas of Audit Focus

Significant risk

Risk of Management Override

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

We focused on the following:

- ▶ Understanding the risks of fraud and the controls put in place to address those risks by management and how the Audit, Governance and Standards Committee oversee management's processes over fraud.
- ▶ Considering the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.

What did we do?

In order to address the risk we carried out a range of procedures, we have:

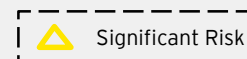
- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Reviewed accounting estimates for evidence of management bias;
- ▶ Evaluated the business rationale for significant unusual transactions; and
- ▶ Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.





Areas of Audit Focus

Significant risk

Accounting for Fixed Assets

What is the risk?

Property, plant and equipment (PPE) represents a significant balance in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on the following:

- ▶ The adequacy of the scope of the work performed by the value including their professional capabilities
- ▶ The reasonableness of the underlying assumptions used by the Authority's expert valuer

What did we do?

In order to address the risk we carried out a range of procedures, we have:

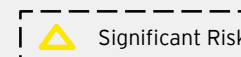
- ▶ Placed reliance on management's valuation experts.
- ▶ Considered the revaluations in year, the basis of valuation of significant assets and significant changes in use to ensure they remain appropriate, we have keep an eye on schools specifically for changes in valuation methodology; and
- ▶ Used our own valuation experts for a sample of valuations completed in year by management's valuation expert.

What are our conclusions?

Our testing did not identify any material misstatements from property, plant and equipment valuation.

Overall our audit work did not identify any material issues or concerns with the scope of work or underlying assumptions used by the Authority's valuer.

Our consideration of the annual cycle of valuations did not identify any issues with the implemented plan or with the movement on assets not revalued in year.





Areas of Audit Focus

Significant risk

Pension Valuation and Disclosures

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.

The Authority's current pension fund deficit is a highly material item and the Code requires that this liability be disclosed on the Authority's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary. As with other authorities, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a significant risk.

What judgements are we focused on?

We focused on the following:

- ▶ The reasonableness of the underlying assumptions used by the Authority's expert - Barnett Waddingham.
- ▶ Ensuring the information supplied to the actuary in relation to Essex County Council was complete and accurate
- ▶ Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Barnett Waddingham.

What did we do?

In order to address the risk we carried out a range of procedures, we have:

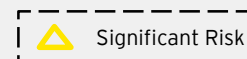
- ▶ Assessed the actuarial expert used by the Authority;
- ▶ Placed reliance on our EY Pensions experts to assess the conclusions drawn on the work of the actuary by the Consulting Actuary to the PSAA, PwC;
- ▶ Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS 19; and
- ▶ Assessed the reasonableness of the estimations and judgements used.

What are our conclusions?

We have reviewed the assessment of the pension fund actuary by PwC and EY pensions and have undertaken the work required with no issues identified.

We have identified one issue with the estimation of total pension fund assets used by the actuary. Due to the timing of their estimation for total fund assets there was a material difference with the year-end Pension Fund value. This resulted in the year-end report from Barnett Waddingham being re-run and an adjustment to the asset figure of £41.996m million has been made.

Details can be found in Section 5 Audit Differences.





Areas of Audit Focus

Significant risk

Waste Treatment PFI

What is the risk?

The Authority is party to a high value contract regarding the proposed waste treatment plant in Basildon. Construction costs in respect of this plant as at 31 March 2018 were in the region of £107 million (borne by the private sector). To date the Facility has not yet operated at the level required by the contract and as the relevant acceptance tests are still to be achieved, the Facility remains in the commissioning phase. Consequently, the parties are utilising the appropriate contractual mechanisms to resolve the issues that have occurred in the commissioning phase. Matters where no agreement has been reached, have been referred by both parties for adjudication in accordance with the dispute resolution process under the contract. As at 31 March 2018, both parties have referred a number of contractual disputes to adjudication. Where matters have not been capable of resolution, the Authority has commenced proceedings in the Technology & Construction Court, which will include final determination on decisions of the adjudicator, where the decision has been disputed. Both parties are presently engaged in the litigation process with the trial expected to commence in April 2019. Given the significant costs to date and the inherent uncertainty of litigation, there is a risk that the disclosures in the financial statements are materially misstated.

What judgements are we focused on?

We focused on the following:

- ▶ The reasonableness of the contingent liability in the accounts rather than the inclusion of a provision.

What did we do?

In order to address the risk we carried out a range of procedures, we have:

- ▶ Reviewed the Authority's consideration of whether it should recognise the Waste Treatment Plant and associated PFI liability on its 2017/18 Balance Sheet;
- ▶ Reviewed the resolution of any agreements reached between parties; and
- ▶ Established whether any provisions or contingent liabilities need to be recognised for any costs associated with potential contractor disputes.

What are our conclusions?

We have not identified any instances of inappropriate judgements being applied.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position in relation to the waste treatment PFI.





03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESSEX COUNTY COUNCIL

Opinion

We have audited the financial statements of Essex County Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement, and
- the related notes 1 to 40 to the Authority Accounts, including the Authority Expenditure and Funding Analysis, and notes 1 to 7 to the Group Accounts,

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Essex County Council and Group as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director for Corporate and Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director for Corporate and Customer Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2017/18, other than the financial statements and our auditor's report thereon. The Executive Director for Corporate and Customer Services is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Basis for Qualified Conclusion

Medium Term Financial Planning

The Authority has disclosed in the 'Organisational Plan 2018/19' p26 (published in January 2018) that the estimated total savings still to find over the medium term period is £127m (£32 million in 2019/20, increasing to £95 million by 2020/21). Since then, as in previous years, the Authority has been working to identify savings and income generating opportunities to bridge the gap.

In our view, at 31 March 2018, the Authority had not yet been able to make sufficient progress in identifying the savings required to demonstrate its ability to secure a stable financial position over the medium term. Unless the budget gap forecast in the Medium Term Financial Strategy is closed, the Authority will have spent substantially all of its usable revenue reserves by the end of 2020/21.

The issues above are evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.



Audit Report

Draft audit report – continued

Our opinion on the financial statements

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Essex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Executive Director for Corporate and Customer Services

As explained more fully in the Statement of the Executive Director for Corporate and Customer Services' Responsibilities set out on page 28, the Executive Director for Corporate and Customer Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Executive Director for Corporate and Customer Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Essex County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Essex County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Essex County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Audit Report

Draft audit report – continued

Our opinion on the financial statements

Certificate

We certify that we have completed the audit of the accounts of Essex County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Essex County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Janet Dawson (Partner)
Ernst & Young LLP (Local Auditor)
London
30 July 2018

The maintenance and integrity of the Essex County Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04

Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £15m which have been corrected by management that were identified during the course of our audit:

The work performed by the auditors of the pension fund administering authority identified a material difference between the total pension fund assets used in the actuary year-end report and the pension fund draft statement of accounts. This is due to the required timing of the estimation methodology applied by the actuary to enable timely IAS 19 reporting. The difference resulted in the following balance sheet adjustments:

- ▶ £41.996m understatement of Pensions Scheme Liability
- ▶ £41.996m overstatement of Unusable Reserves (Pensions Reserve)

There were no uncorrected misstatements.



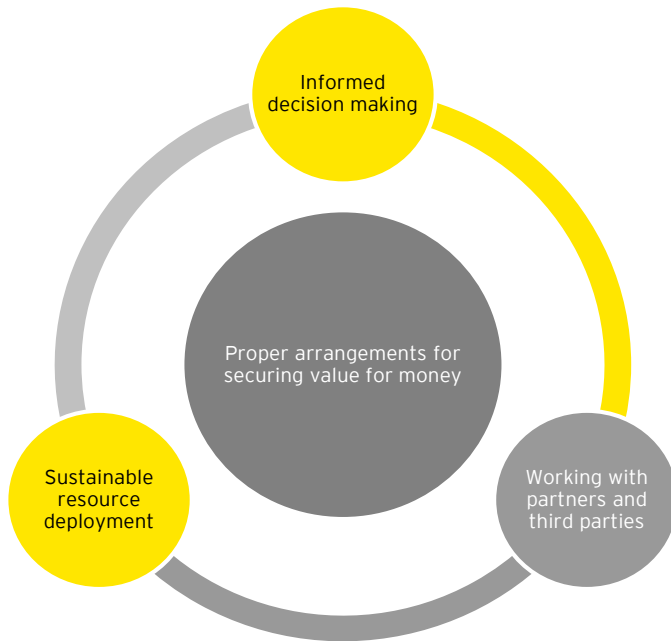
05

Value for Money Risks





Value for Money



Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources during the year of audit to 31 March 2018. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

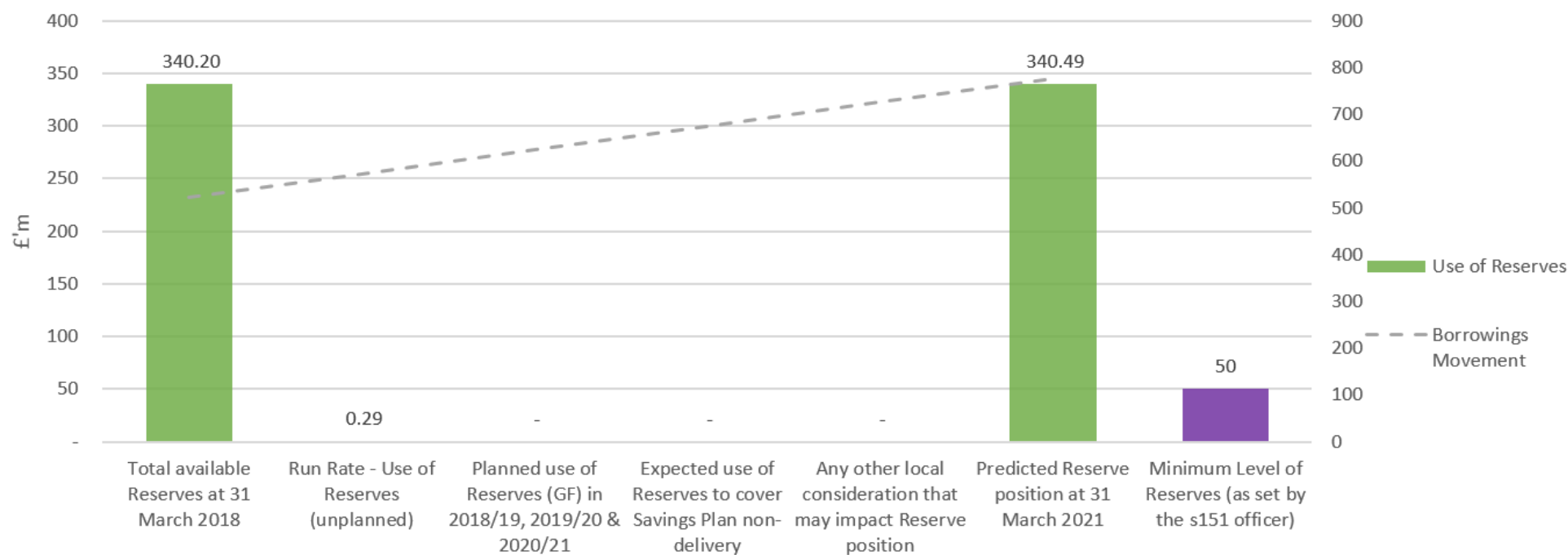
We identified three significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Plan and any other significant weaknesses or issues we want to bring to your attention.

We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources, except for sustainable resource deployment arising from pressure from the economic environment.



Value for Money

Assessment of Reserves Position from 2018 to 2021



Our Assessment

In our assessment we considered:

- The Authority's level of savings requirement to balance the General Fund budget in each of the next 3 years;
- The Authority's planned use of reserves to support the General Fund budget in each of the next 3 years;
- the Authority's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- the Authority's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

We have also looked at the Authority's planned use of borrowing over the same time frame to inform our assessment.

As a result of our assessment, we are satisfied that the Authority's General Fund reserve balance at the 31 March 2021 will remain above the Authority's approved minimum level.



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money as at 31 March 2018, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report as well as any additional risks identified since then.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Pressure from Economic Environment</p> <p>To date the Authority has responded well to the financial pressure resulting from the continuing economic downturn.</p> <p>However, the Authority continues to face significant financial challenges over the next three to four years. Whilst the Authority is able to present a balanced budget for 2018/19, this does assume full delivery of savings. At the time of writing our audit plan there was a forecasted underlying budget gap of £32m in 2019/20 increasing to £95m in 2020/21. The continuing restructuring taking place across the organisation is designed to support the delivery of some savings however may increase the risk of that delivery as changes to roles and responsibilities take place in the coming year.</p> <p>Last year, in recognition of the financial challenge, we provided an except for conclusion on the Authority's arrangements for securing financial resilience, and for challenging how it secures economy, efficiency and effectiveness. Given the scale of the savings required, there is a risk that savings plan to bridge the gap is not robust and/or achievable.</p>	<p>Taking informed decisions and Deploying Resources in a sustainable manner</p>	<p>We have undertaken the procedures as set out in our audit strategy which have focused on: The adequacy of the Authority's budget monitoring process, comparing budget to outturn & the robustness of any assumptions used in medium term planning; The Authority's approach to prioritising resources whilst maintaining services; and The savings plans in place, and assessing the likelihood of whether these plans can provide the Authority with the required savings and efficiencies over the medium term.</p> <p>Clearly the scale of savings and service transformation to be delivered by the Authority over the medium term are significant. The Authority currently has a good level of un-earmarked general fund reserves (£55.2 million plus £4 million of emergency contingency at 31 March 2018). These provide the Authority with the flexibility to manage its financial position over the short-to-medium term, and reduce the risk that an unexpected overspend, or unexpected one-off item of expenditure, has a detrimental impact on the Authority's financial standing. The Authority currently intends to maintain the General Fund balance at its current level. The Authority also has in place substantial levels of earmarked reserves (£285 million at 31 March 2018), although some of these are for restricted use. The existence of these reserves provides further evidence of the Authority's prudent approach to financial management. Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Authority's history of delivery has not identified any significant matters. As at 31 March 2018 the Authority has reduced the budget gap to £32m in 2019/20 and £95m in 2020/21, amounts which exceed the usable reserves available to the Authority. The Authority, in line with previous years, is undertaking a review of budget proposals (savings and income generating opportunities) to bridge the gap. At this stage, the 2018/19 year savings are substantially identified, but not yet finalised. Proposals are in place for 2019/20 and work has been commissioned to identify savings for 2020/21.</p> <p>We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources, except for the matter noted above.</p>



Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Take informed decisions - Waste Treatment Plant - Basildon</p> <p>The Authority is party to a high value contract regarding the proposed waste treatment plant in Basildon. Construction costs in respect of this plant as at 31 March 2018 were in the region of £107 million (borne by the private sector). To date the Facility has not yet operated at the level required by the contract and as the relevant acceptance tests are still to be achieved, the Facility remains in the commissioning phase. Consequently, the parties are utilising the appropriate contractual mechanisms to resolve the issues that have occurred in the commissioning phase. Matters where no agreement has been reached have been referred to adjudication to determine an outcome. As at 31 March 2018, both parties have referred a number of contractual disputes to adjudication. Where matters have not been capable of resolution, the Authority has commenced proceedings in the Technology & Construction Court, which will include final determination on decisions of the adjudicator where the decision has been disputed. Both parties are presently engaged in the litigation process with the trial expected to commence in April 2019.</p> <p>Given the significant costs to date, this presents a VFM risk should the plant not become fully operational in accordance with the contract.</p>	<p>Take informed decisions</p>	<p>Our work in response to the risk included:</p> <p>Review of the PFI business case, including the outline procurement process and value for money assessments; and monitoring developments throughout the year.</p> <p>Our work indicated that ECC does have good internal governance arrangements with regard to this project and has established sound external governance arrangements though ongoing engagement with DEFRA, the sponsoring central government department. Through the appointment of external legal, technical and financial advisors the Authority ensures a detailed oversight of the project and it is clear that the Authority have sought to achieve VFM as part of their procurement as well as contract management processes.</p> <p>There is clear evidence that the Authority utilises all available financial and technical information when undertaking performance management procedures and making informed critical decisions regarding the project.</p> <p>ECC continue to be exposed to financial and legal risks resulting from this PFI contract. For a complex organisation like ECC, this is not unusual. With a reducing funding position over the medium term and an increased focus on different ways of working in response, robust management of these risks remains important.</p> <p>ECC continues to apply robust contract management and monitoring arrangements over this significant contract and through these arrangements ensures it has a comprehensive understanding of all financial, legal and compliance risks to which it is exposed.</p>



Value for Money Risks

What is the significant value for money risk?

Commercialisation

We have identified three main components for which to focus our review of the Authority's commercialisation agenda:

- Garden Communities;
- Property Investment Fund; and
- Housing Project

Authorities are increasingly under scrutiny as a result of investment and commercialisation activities some are undertaking to increase income to meet funding gaps for the provision of services. In 2017/18 MHCLG updated its guidance on the Prudential Code, in response to concerns that authorities were:

- Taking advantage of lower than market interest rates offered by PWLB to borrow in advance of service need solely to generate profit, which MHCLG consider not to be prudential
- Entering into profit generating investment schemes that fall outside the responsibilities or skills of the authority, such as the purchase of retail parks and shopping centres, or outside the authority's area, thereby not for the purpose of regeneration of their area, or both.

The effective date per the guidance applies for financial years on or commencing after 1 April 2018. As a result of this 'the Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance'. It is also worth noting that 'nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will need to consider whether any novel transaction is lawful by reference to legislation'.

What arrangements did the risk affect?

Deploying Resources in a sustainable manner

What are our findings?

Our work in response to the risk included:

- Reviewing the governance arrangements of the projects;
- Reviewing the financial impact of these projects and potential risks;
- Reviewing any associated laws and regulations; and
- Assessing the risk to going concern

We have not identified any issues with the progress of the Garden Communities projects. The Housing project is in its infancy and no issues have been identified during our review.

The Authority approved the creation of a £50 million Property Investment Fund (PIF) in July 2017 to act as an income stream, which was initially planned to be funded through borrowing.

The £50 million allocated to the PIF is included in the 2017/18 capital programme, however acquisitions are planned to take place over a 24 month period, which takes the PIF activity past the effective date.

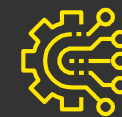
In 2017/18 the Authority has purchased two investment properties, totalling £27 million, outside the Essex region solely for the purposes of generating investment income. However, in line with the updated guidance the Authority have funded these properties using capital receipts and capital grants.

The larger investment property acquired in the period is a retail park which we have identified as higher risk. We have therefore performed additional audit procedures on the internal rate of return and net yield assumptions applied by the Authority in assessing the future incomes and assessed the purchase price paid by the Authority. All assumptions applied are within our acceptable range and no specific issues were identified with the purchase price.

We have also confirmed that the Authority, in acknowledging the revised guidance, has made the relevant disclosure in their investment strategy for 2018/19 as per the requirement.



06 Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We are required to give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

We also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

In addition to our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Audit, Governance and Standards Committee.

Assessment of new Accounting Standards

- ▶ IFRS 9 Financial Instruments: The 2018/19 Code introduces IFRS 9 on financial instruments. As per note 3 in the statement of accounts the Authority assessment is that the impact will be in the region of £12m, but this will be kept under review.
- ▶ IFRS 15 Revenue from Contracts with Customers: Similarly the 2018/19 Code of Practice on Local Authority Accounting for the United Kingdom determines how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies. As per note 3 in the statement of accounts your view is that IFRS 15 will not have a material impact on this Authority's financial statements but they do recognise that it has the potential to change the date at which revenue is recognised.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have no matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



8

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report presented to the Audit Governance and Standards Committee on 26 March 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Governance and Standards Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit, Governance and Standards Committee on 30 July 2018.

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on the Teachers' Pension agreed upon procedures. We have adopted the necessary safeguards in our completion of this work.

Independence



Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We note that 2017/18 is the final year as our appointment as auditor due to changes in the PSAA contract. As at the date of this report, there are no future services beyond 2017/18 which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have undertaken non-audit work outside the PSAA Code requirements for Teachers' Pension agreed upon procedures. Non-audit work is work not carried out under the Code. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in Month Year.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work (Note1)	173,210	163,981	163,981	207,974
Non-audit work-Teacher's Pension	13,250	13,250	13,250	13,250

Note 1:

As indicated in our audit planning board report presented to the Audit Governance and Standards Committee on 26 March 2018 the risks identified in sections 2 and 5 of this plan have resulted in additional audit procedures. We are currently in discussions with the Executive Director for Corporate and Customer Services to agree the additional which is £9,229. This is also subject to approval by the PSAA.

We will confirm our final fees following the completion of our work and report this within our Annual Audit Letter.



9

Appendices





Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:




- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Appendix A

Balance sheet category 	Audit Approach in current year 	Audit Approach in prior year 	Explanation for change 
Property Plant and Equipment	Substantively tested all assertions	Substantively tested all assertions	N/A
Investments	Substantively tested all assertions	Substantively tested all assertions	N/A
Debtors	Substantively tested all assertions	Substantively tested all assertions	N/A
Investment Properties	Substantively tested all assertions	Immaterial in the prior year-therefore did not test	A significant value of investment properties were purchased in year
Cash	Substantively tested all assertions	Substantively tested all assertions	N/A
Borrowing	Substantively tested all assertions	Substantively tested all assertions	N/A
Creditors	Substantively tested all assertions	Substantively tested all assertions	N/A
Provisions	Substantively tested all assertions	Substantively tested all assertions	N/A
Grants Receipt in Advance	Substantively tested all assertions	Substantively tested all assertions	N/A
Leases	Substantively tested all assertions	Substantively tested all assertions	N/A
Pensions Liability	Substantively tested all assertions	Substantively tested all assertions	N/A
Reserves	Substantively tested all assertions	Substantively tested all assertions	N/A

Appendix B

Summary of communications



Date 	Nature 	Summary 
26 March 2018	Report	The audit planning report, including confirmation of independence, was issued to the Audit, Governance and Standards Committee.
26 March 2018	Meeting	The audit manager, met with the Audit, Governance and Standards Committee and senior members of the management team to discuss the audit planning report.
20 June 2018	Meeting	The partner in charge of the engagement, met with senior management to discuss the value for money pressures from the economic environment.
16 July 2018	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with senior management to discuss the audit progress and items presented within this report.
30 July 2018	Report	The audit results report, including confirmation of independence, was issued to the Audit, Governance and Standards Committee.
30 July 2018	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit, Governance and Standards Committee and senior members of the management team to discuss the audit results report.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.





Appendix C

Required communications with the Audit, Governance and Standards Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

Our Reporting to you		
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit, Governance and Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report 26 March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report 26 March 2018
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report 30 July 2018
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report 30 July 2018




Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the Audit, Governance and Standards Committee include:</p> <ul style="list-style-type: none"> ▶ A declaration of independence ▶ The identity of each key audit partner ▶ The use of non-member firms or external specialists and confirmation of their independence ▶ The nature and frequency of communications ▶ A description of the scope and timing of the audit ▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▶ Materiality ▶ Any going concern issues identified ▶ Any significant deficiencies in internal control identified and whether they have been resolved by management ▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the Audit, Governance and Standards Committee ▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The identification of any non-EY component teams used in the group audit ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant 	<p>Audit planning report 26 March 2018 Audit results report 30 July 2018</p>

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report 30 July 2018
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results report 30 July 2018
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Audit, Governance and Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report 30 July 2018
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit, Governance and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit, Governance and Standards Committee responsibility. 	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.




Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit results report 30 July 2018
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report 26 March 2018</p> <p>Audit results report 30 July 2018</p>

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report 30 July 2018
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit, Governance and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit, Governance and Standards Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report 30 July 2018

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit results report 30 July 2018
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit results report 30 July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report 30 July 2018
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report 30 July 2018
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report 26 March 2018 Audit results report 30 July 2018

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

30 July 2018

Janet Dawson
Ernst & Young
1 More London Place
SE1 2AF
London

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Essex County Council ("the Group and Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Essex County Council as of 31 March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and the Council that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

Management representation letter – continued

Management Rep Letter

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit, Governance and Standards Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 30 July 2018.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 26 to the consolidated and council financial statements all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be

received.

E. Subsequent Events

1. Other than that described in Note 40 to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and the Narrative Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of non-current assets and investment properties and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Accounting Estimates

Valuation of Pension Asset/Liabilities and Property, Plant and Equipment Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the valuation of Pension Asset/Liabilities and Property, Plant and Equipment appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.



Appendix D

Management representation letter – continued

Management Rep Letter

4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

(Executive Director for Corporate and Customer Services Corporate and Customer Services)

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