Report to the Audit, Governance and Standards Committee

ESSEX COUNTY COUNCIL

Audit Completion Report: year ended 31 March 2020

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WELCOME

Contents

We have pleasure in presenting our Audit Completion Report to the Audit, Governance and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2020, specific audit findings and areas requiring further discussion and/or the attention of the Audit, Governance and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit, Governance and Standards Committee on the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit, Governance and Standards Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

David Eagles, Partner

For and on behalf of BDO LLP

19 November 2020

David Eagles

Engagement Partner

t: 01473 320728
m: 07967 203431
e: david.eagles@bdo.co.uk

Janine Combrinck

Director

t: 020 7893 2631
e: janine.combrinck@bdo.co.uk

Barry Pryke

Senior Manager

t: 01743 320 793
e: barrry.pryke@bdo.co.uk

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This summary provides an overview of the audit matters that we believe are important to the Audit, Governance and Standards Committee in reviewing the results of the audit of the financial statements of the Group and use of resources of the Council for the year ended 31 March 2020.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the Group's financial statements and the Council's use of resources for the year ended 31 March 2020 on 30 November 2020.

Outstanding matters are listed on page 45 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

Subject to the successful resolution of outstanding matters, we anticipate issuing an unmodified audit opinion on the consolidated Group financial statements and the Council's single entity financial statements as set out on page 45.

We have no exceptions to report in relation to the arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

We are unable to issue our audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts submission.

THE NUMBERS
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Final materiality

Group final materiality was determined based on 1.75% of gross expenditure.

Group planning materiality of £36.1 million (as reported in our planning report dated 6 March 2020, presented to the Audit, Governance and Standards Committee on 23 March 2020) has been updated to reflect gross expenditure reported in the unaudited 2019/20 financial statements.

Material misstatements

Our audit identified the following material misstatements:

- Bank accounts in an overdraft position at both 31 March 2020 and 31 March 2019 were shown net against cash and cash equivalents on the face of the balance sheet. These bank accounts should have been shown gross as current liabilities.
- Cash outflows associated with revenue expenditure funded from capital under statute (REFCUS) were classified as investing activities in both 2018/19 and 2019/20. These cash flows should have been shown as operating activities.
- Cash inflows and outflows associated with purchases of and proceeds from investments were shown net in Note 28 Cash flows from operating, investing and financing activities for both 2018/19 and 2019/20. These cash flows should have been shown gross.

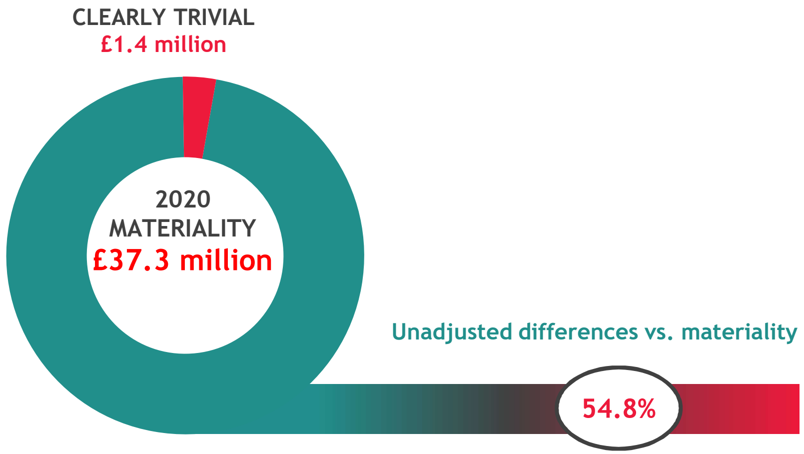
Management has amended the financial statements for these misstatements. There is no impact on the total value of the cash balances held by the Council.

Unadjusted audit differences

We identified two audit adjustments that, if posted, would reduce the deficit on the provision of services for the year by £2.195m

Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been achieved.



OTHER MATTERS
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Financial reporting

- We have not identified any non-compliance with Group accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- The Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council and the Group in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

CORONAVIRUS

The effects on year-end reporting and auditing

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential corporate reporting and auditing issues and consequences of the virus, and there have been a number of Local Government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this corporate guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

Going concern

In respect of going concern, the Council is required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information, sensitivity analysis (which may require additional and/or different potential variances to be included) and compliance with bank and other covenants will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern the Council is required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.
- The assessment needs to consider the entity's resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If the Council considers that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government's commitment to ensure that local authorities are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by non-public sector entities. However, the Council's assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor's review of the Council's assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report.

CORONAVIRUS 2

The effects on year-end reporting and auditing

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Financial reporting implications

Grant funding

Grant funding received before 31 March 2020 to fund expenditure related to the Coronavirus pandemic will need to be assessed for conditions and recognised in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Valuations of financial and non-financial assets and liabilities:

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data.

Subsequent events disclosure

Significant income and expenditure incurred as a result of the Coronavirus pandemic after 31 March 2020 and up to the date of signing may need to be disclosed as a non-adjusting post balance sheet event, if considered of such importance as to affect the ability of users of the financial statements to make proper evaluations.

Leases:

IFRS 16 Leases will be effective from 1 April 2021 (a further one year deferral).

Narrative reporting implications

The Annual Governance Statement should clearly set out the risks arising from Coronavirus.

Local authorities will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Statement of Accounts.

Other guidance

The National Audit Office (NAO) has published a Guide for audit committees on financial reporting and management during the Coronavirus pandemic. This guide aims to help audit committee members support and challenge the organisations they work with in the following areas:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure.

In each section of the guide, the NAO has set out some questions to help audit committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and audit committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

The guide is available through the following link:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

CORONAVIRUS 3

The effects on year-end reporting and auditing

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Implications for auditors

Risk assessment:

- The impact of Coronavirus on going concern is a risk focus area for the audit, and in some cases may be a significant risk. As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk. This includes the specific considerations in relation to the risks of having services in an affected area and supply chain issues in relation to items coming from these locations. In summary there may be a heightened risk of misstatement for:
  - The valuation and disclosure of financial and non-financial assets including property, plant and equipment (PPE), investment properties, intangibles, investments and accounts receivable
  - The valuation and disclosure of financial obligations and any lending covenants
  - Going concern and/or working capital assessment and disclosure
  - Risk disclosures
  - Subsequent event disclosures
  - As noted above, entities need to consider their reporting of principal risks and uncertainties and we then need to consider this detail as part of our 'review and consider' of the Narrative Report and Annual Governance Statement, in particular where we believe there are risks missing from the detail.

Sufficient and appropriate audit evidence:

- Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team, including that of component or other auditors. We need to:
  - Consider the impact on the audited entity
  - Consider alternative ways of working including the use of our technology tools
  - Consider implications for the quality of audit evidence and reporting.
- Our audit has been conducted remotely. Arrangements for sharing of working papers via a portal application were already in place prior to the UK Government implementing the lockdown requirements and we have continued to use this during the most recent phase of our audit.
- Where it has been necessary to observe documentation being produced, we have worked with the Council to arrange virtual meetings, allowing both sides to share their desktops and view the processes being followed.
- In undertaking audit work on the valuation of property, particularly specialised property valued using the Depreciated Replacement Cost method and Modern Equivalent Assets assumptions (including alternative site models), auditors are able to draw upon relevant information and indices collated, assessed and reported on by a firm of valuers, Gerald Eve, as commissioned on behalf of local public auditors by the NAO.
- Valuers are also encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations. In these cases, such caveats should be included within the Council's financial statements and may be referred to by the auditor in their opinion/report.

AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 6 March 2020 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	No
Revenue recognition and expenditure cut-off	Significant	Yes	No	No	No	No
Valuation of land, buildings and investment properties	Significant	Yes	Yes	Yes	No	Yes
Valuation of pension liability	Significant	Yes	Yes	No	No	Yes
Waste Treatment PFI	Significant	Yes	No	No	No	No
Disposal of Essex Education Services (EES)	Normal	No	No	No	No	No
Termination of Tendring Public Private Partnership	Normal	No	Yes	No	No	No
Implementation of IFRS 16 (Leases)	Normal	No	No	No	No	No
Related party transactions	Normal	No	No	No	No	Yes

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our audit procedures on journal entries are complete and we have no matters to report.

Our review of estimates and judgements applied by management is complete and we have no matters to report.

Our review of the unadjusted audit differences has not identified any indication of bias or deliberate misstatement.

Discussion and conclusion

Our audit work did not identify any issues.

REVENUE RECOGNITION AND EXPENDITURE CUT-OFF

Contents

Auditing standards presume that income recognition presents a fraud risk.

For public sector bodies the risk of fraud related to expenditure is also relevant.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy and existence of revenue grants subject to specific performance conditions.

For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of grants included in income to supporting documentation from grant paying bodies and checked whether recognition criteria had been met.
- Checked that expenditure had been recognised in the correct accounting period by substantively testing a sample of expenditure around year-end.

Results

Our audit procedures relating to both grant income subject to specific conditions and expenditure occurring round the year end are complete and we have no matters to report.

Discussion and conclusion

Our audit work did not identify any issues.

VALUATION OF LAND, BUILDINGS AND INVESTMENT PROPERTIES

The valuation of land and buildings is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

Local authorities are required to ensure that the carrying value of land and buildings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

The Council applies a five-year rolling revaluation programme to its land and buildings, with surplus assets and investment properties revalued annually. A market review is performed at the end of the financial year to determine whether material movements may have occurred since the valuation date. Property revaluations and the market review are undertaken by the Council's external property advisors.

Due to the significant value of the Council's land, buildings and investment properties, there is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage;
- Reviewed accuracy and completeness of information provided to the valuer, such as rental agreements and sizes;
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets;
- Followed up valuation movements that appear unusual; and
- Confirmed that assets not specifically valued in the year were assessed to ensure their reported values remained materially correct.

Results

The instructions provided to the valuer were consistent with our expectations and we concluded that we were able to rely on the management expert.

Our audit procedures relating to assets valued on an existing use or fair value basis are complete and we have no matters to report.

Our audit procedures relating to the valuation of specialised land and buildings (including schools) are complete. We identified that the indexation applied to specialised assets not subject to full revaluation in 2019/20 was outside of our expectations (which were based on the detailed in-year valuations performed as part of the rolling revaluation programme). The Council have performed further work and have concluded that the maximum value of the misstatement arising from this issue is an £18.250 million understatement of the value of land and buildings. This has been reported as an unadjusted error on page 23.

Discussion and conclusion

Other than the matter referred to above, our audit work did not identify any issues.

VALUATION OF PENSION LIABILITY

Contents

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The net pension liability comprises the Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions.

The valuation of the pension liability is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the competence of the management expert (actuary);
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewed the controls in place for providing accurate membership data to the actuary;
- Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Checked that any significant changes in membership data were communicated to the actuary.

Results

The disclosures in the financial statements agree to the information provided by the pension fund actuary. We concluded that we were able to rely on the management expert.

We have reviewed the reasonableness of the assumptions used by the actuary in the calculations and have no matters to report.

We have reviewed the controls in place for providing accurate membership data to the actuary and have no matters to report.

Discussion and conclusion

Our audit work did not identify any issues.

WASTE TREATMENT PLANT PFI

Contents

There is a risk that assets and liabilities associated with the Waste Treatment Plant PFI are treated incorrectly in the Council's accounts.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The Council is party to a PFI arrangement for the design, construction and operation of a waste treatment plant. As disclosed in the Council's 2018/19 Statement of Accounts, construction of the plant commenced in May 2013 and achieved the Readiness Date in November 2014. The Facility remains in the commissioning phase and the contractual long stop date has passed. The Council and operator of the facility are currently utilising contractual and dispute mechanism to resolve issues which have occurred during the commissioning phase.

There is a risk that assets and liabilities associated with the Waste Treatment Plant PFI are treated incorrectly in the Council's accounts.

Work performed

We carried out the following planned audit procedures:

- Assessed whether the Council's accounting treatment of the arrangement is consistent with the terms set out in the contract and the requirements of CIPFA's Code of Practice on Local Authority Accounting; and
- Considered the basis for any judgements made by management in determining the treatment of the assets and liabilities associated with the arrangement.

Results

Based on our updated understanding of the position regarding the contract, including the results of the Court case and the subsequent administrative receivership of the operator, we concluded that the Council's accounting treatment of the arrangement is consistent with the terms set out in the contract and the requirements of CIPFA's Code of Practice on Local Authority Accounting and that the disclosures made in respect of contingencies were not inappropriate.

Discussion and conclusion

Our audit work did not identify any issues.

DISPOSAL OF ESSEX EDUCATION SERVICES (EES)

Contents

Accounting entries associated with the disposal of EES of the arrangement may not be correctly presented.

Significant risk	
Normal risk	■
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

During 2019/20, the Council sold Essex Education Services (EES), an internal trading unit which provides support services to schools, including pupil performance monitoring software, to a third party.

There is a risk that the accounting entries associated with the sale of EES are not recognised at the correct value and/or presented correctly in the Council's financial statements.

Work performed

Our audit procedures included reviewing the accounting entries associated with sale of EES to confirm that they had been correctly recognised and presented in accordance with the requirements of CIPFA's Code of Practice on Local Authority Accounting and applicable financial reporting standards.

Results

The Council have recognised the proceeds from the disposal of EES as a capital receipt. The treatment of the disposal in the Statement of Accounts is consistent with the requirements of CIPFA's Code of Practice on Local Authority Accounting and applicable financial reporting standards.

Discussion and conclusion

Our audit work did not identify any issues.

TERMINATION OF TENDRING PUBLIC PRIVATE PARTNERSHIP

Accounting entries associated with the termination of the arrangement may not be correctly presented.

Significant risk	
Normal risk	■
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The Council entered into a public private partnership (PPP) for the provision of 12 primary schools in the Tendring area in October 2001. At its meeting in July 2018, the Cabinet approved termination of this arrangement. Formal termination took place in 2019/20.

There is a risk that the accounting entries associated with the termination of the PPP arrangement are not recognised at the correct value and/or presented correctly in the Council's financial statements.

Work performed

Our audit procedures included reviewing the accounting entries associated with the termination of the arrangement to confirm that they had been correctly recognised and presented in accordance with the requirements of CIPFA's Code of Practice on Local Authority Accounting and application financial reporting standards.

Results

The Council have split the termination payment appropriately between capital and revenue elements. The treatment of the termination payment in the Statement of Accounts is consistent with the requirements of CIPFA's Code of Practice on Local Authority Accounting and applicable financial reporting standards.

Discussion and conclusion

Our audit work did not identify any issues.

IMPLEMENTATION OF IFRS 16 (LEASES)

There is a risk that disclosures relating to the implementation of IFRS 16 in 2020/21 are not complete and accurate.

Significant risk	
Normal risk	■
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The Code of Practice on Local Authority Accounting requires the implementation of IFRS 16 (leases) in 2020/21. This is a significant change to the financial reporting requirements for the Council. The preparation for this change represents a major piece of work.

There is a risk that the disclosures required in the accounting standards not yet adopted note, and the full disclosures in the 2020/21 financial statements will not be complete and accurate if the Council does not undertake the necessary preparatory work to enable the smooth implementation of IFRS 16.

Work performed

This risk was raised on the assumption that IFRS 16 would be adopted by the Code from 1 April 2020 and IAS 8 disclosures regarding the impact of the standard would be required in the 2019/20 financial statements,

Following the issue of our audit plan, it was announced that implementation of IFRS 16 in the public sector would be postponed until 1 April 2021, meaning detailed disclosures are no longer required in the 2019/20 financial statements.

Results

Note 4 in the unaudited accounts makes reference IFRS 16 and the change from recognising only finance lease assets on the balance sheet. The note also highlights the deferral. This disclosure meets the requirements of the Code and no further work is required.

Discussion and conclusion

Our audit work did not identify any issues.

RELATED PARTY TRANSACTIONS

Contents

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting 2019/20 requirements.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

Whilst the Council are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit, Governance and Standards Committee.

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.

Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and reviewed councillors' and management declarations to ensure that there were no potential related party transactions which have not been disclosed; and
- Undertaken Companies House searches for potential undisclosed interests.

Results

Our review of the management processes and controls to identify and disclose related party transactions has not identified any weaknesses.

Our audit procedures have not identified any undisclosed related party transactions.

Discussion and conclusion

Our audit work did not identify any issues.

OTHER MATTERS

The following additional matter arose during the audit which we want to bring to your attention.

Issue	Comment
The Council have reported an overspend of £5.4 million against the 2019/20 dedicated schools grant (DSG) received from central government. In accordance with guidance issued by CIPFA in 'CIPFA Bulletin 05 – Closure of the 2019/20 Financial Statements', published in April 2020, and as disclosed in Note 14 to the financial statements, the Council has presented the 2019/20 DSG deficit as a negative earmarked reserve.	It is our view that recognition of a negative earmarked reserve is not consistent with the requirements of the Code, as there is no precedent for using earmarked reserves to recognise a liability that has already been incurred by the Council (effectively resulting in an unusable earmarked reserve). We consider debiting the 2019/20 DSG deficit directly against the general fund balance (effectively reducing the general fund balance) to be an appropriate alternative. From 1 April 2020, the treatment of deficits arising against the DSG is governed by legislation. This legislation mandates that a DSG deficit will only be funded and recovered through financial support received from the Department for Education and so should not be financed by the Council's general fund. The amendment to the relevant legislation has now been published and confirms that any such deficit is to be held in an unusable reserve from 1 April 2020. This matter is presentational in nature and does not affect the total general fund and earmarked reserves balances shown in the financial statements. The value of the deficit is not material to the Council's financial statements.

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MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud.

We have been made aware of a small number of low value actual, alleged or suspected incidences of fraud committed by users of services provided by the Council (blue badges and adult social care personal budgets for example). We requested confirmation from the Audit, Governance and Standards Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 23 March 2020.

Internal audit

We reviewed the audit work of the Group’s internal audit function although we did not place reliance on their work in respect of their assessment of control processes.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify and significant matters in connection with related parties.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

We are required to bring to your attention unadjusted differences and we request that you correct them.

There are two unadjusted audit differences identified by our audit work which would reduce the deficit on the provision of services for the year of £131.513 million by £2.915 million and would increase net assets of £1.289 billion by £2.915 million.

The first unadjusted audit difference is a projected value based on the error rate in our sample of creditor balances selected for testing.

£2.025 million of the projected misstatement of £2.915 million has arisen following comparison of estimates made by the Council when preparing the accounts to the supplier invoices subsequently received. We have compared the estimate to the invoice and identified that the estimate was overstated. We are satisfied that the estimate made by the Council was not unreasonable and our projected misstatement reflects more accurate information being available at the date of audit. The actual value of the differences between the estimate recognised in the financial statements and invoices subsequently received was £78,814.

The general fund balance would increase by £2.195 million if this audit difference was adjusted.

As reported on page 13, our audit procedures relating to valuations of specialised assets and subsequent analysis undertaken by the Council identified an estimated understatement of £18.250 million of land and buildings. This unadjusted misstatement has no impact on the general fund.

Following discussion it was agreed that the above unadjusted audit differences are not to be processed. You consider the difference to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Retained deficit on the provision of services for the year before adjustments	131,513				
Adjustment 1: Projected overstatement of creditors due to more accurate information being available at the date of audit					
DR Short term creditors				2,195	
CR Expenditure			(2,195)		
Adjustment 2: Estimated maximum understatement of specialised asset carrying values					
DR Property, plant and equipment				18,250	
CR Revaluation reserve					(18,250)
Total unadjusted audit differences	**(2,195)**		**(2,195)**	**20,445**	**(18,250)**
Deficit on the provision of services for the year if above issues adjusted	129,318				

Contents

UNADJUSTED AUDIT DIFFERENCES: DETAIL

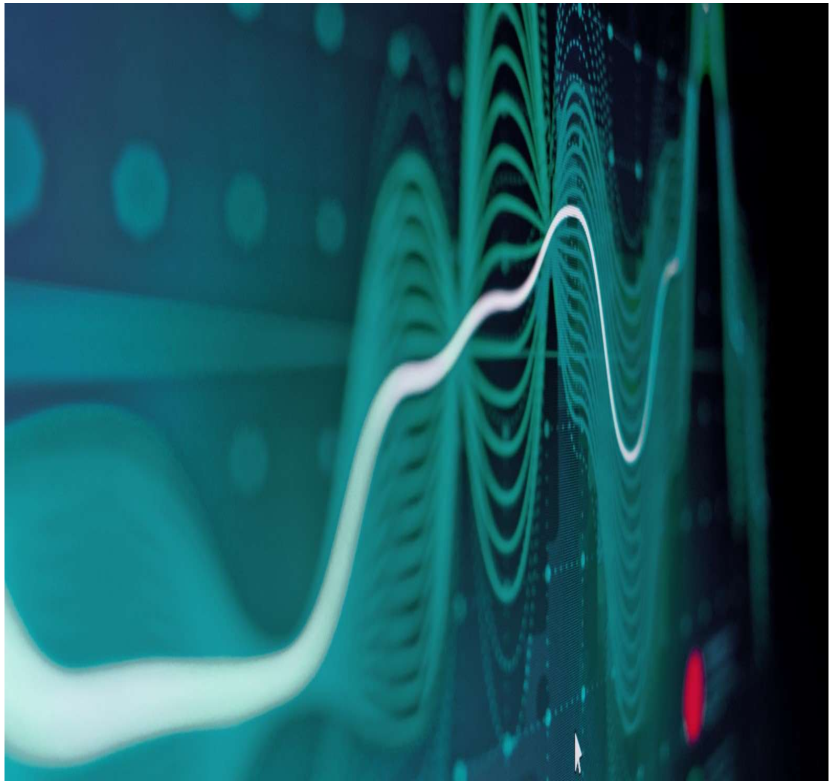
Details for the current year

Impact on the General Fund balance	General Fund balance £'000
Balance before unadjusted audit differences	(56,439)
Impact on surplus on the provision of services above	(2,195)
Adjustments that would be reversed from the General Fund through the Movement in Reserves Statement	-
Balances after the above adjustments	**(58,634)**

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents



There were two audit differences identified by our audit work that were adjusted by management.

The first difference relates to the presentation of bank balances in an overdraft position on the face of the balance sheet, which were shown net against positive cash and cash equivalent balances. This audit difference also affects the prior year resulting in a prior period adjustment being made to the comparative values in the balance sheet:

- At 31 March 2019, overdraft balances of £52.242 million were shown net against the cash and cash equivalents balance
- At 31 March 2020, overdraft balances of £17.718 million were shown net against the cash and cash equivalents balance

The table on the following page shows the accounting entries processed in relation to this adjustment.

The second audit difference relates to the classification of cash outflows relating to REFCUS. This audit difference also affects the prior year resulting in a prior period adjustment being made to the comparative values in the cash flow statement and supporting notes:

- At 31 March 2019, REFCUS outflows of £69.862 million were shown as investing cash flows rather than operating cash flows
- At 31 March 2020, REFCUS outflows of £74.640 million were shown as investing cash flows rather than operating cash flows

This adjustment affects the cash flow statement and associated notes only so is not shown in the table on the following page.

These adjustments have no impact on the deficit on the provision of services, the total value of cash balances held by the Council or the general fund balance.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Contents

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Retained deficit on the provision of services for the year before adjustments	131,513				
Adjustment 1: Presentation of overdraft balances gross on balance sheet					
DR Current assets - cash and cash equivalents at 31 March 2019				52,242	
CR Current liabilities – cash and cash equivalents at 31 March 2019					(52,242)
DR Current assets - cash and cash equivalents at 31 March 2020				17,718	
CR Current liabilities – cash and cash equivalents at 31 March 2020					(17,718)
Retained deficit on the provision of services for the year after adjustment	131,513				

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

Contents

We are required to bring to your attention other financial reporting matters that the Audit, Governance and Standards Committee is required to consider.

The following adjusted disclosure matters were noted:

- We identified that in Note 28 – Cash Flows from operating, investing and financing activities, the cash inflows from the proceeds of short and long term investments and the cash outflows from the purchase of short and long term investments were shown as net rather than gross. The adjustments made are as follows:
- For 2018/19
  - Proceeds from short and long term investments have been amended from £120.968 million to £454.468 million
  - Purchases of short and long term investments has been amended from £0.369 million to £333.869 million.

  For 2019/20
  - Proceeds from short and long term investments have been amended from £0.413 million to £523.713 million
  - Purchases of short and long term investments has been amended from £25.000 million to £548.300 million.

  This matter has no impact on the value of investments held by the Council.

REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

WHOLE OF GOVERNMENT ACCOUNTS

Contents

Matter	Comment
For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 30 September 2020. The Council met this deadline. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements.

OVERVIEW

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We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting 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.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Planning Report we assessed the following matter as being the most significant risk regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required savings may not be delivered.	Sustainable resource deployment	Significant	No

Following the UK government’s response to the Covid-19 pandemic in March 2020, and the announcement on 23 March 2020 of severe restrictions on the public, the National Audit Office updated its Auditor Guidance Note on Value for Money Arrangements in April 2020. This clarified that for the 2019/20 audit, auditors are only expected to consider the Council’s response to Covid-19 in so far as it relates to the 2019/20 financial year.

Covid-19 has significant implications for local authorities, who need to adjust to both significant increases in demand for some services, such as health and social care, and new ways of working. However, as the government announcement came only a week before the end of the financial year, authorities are not expected to have formally assessed the impact on their arrangements and decision-making processes before the end of the financial year. Therefore, we have not considered the Council’s response to Covid-19 in any detail in the 2019/20 use of resources audit. We will consider this as part of our planning work for the 2020/21 audit, to support the commentary on arrangements under the new Code of Audit Practice applicable from 2020/21.

SUSTAINABLE FINANCES

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required savings may not be delivered.

Significant risk	■
Normal risk	
Sustainable resource deployment	■
Informed decision making	
Working with partners and other third parties	
Significant control findings to be reported	

Risk description

The Organisation Plan 2020/21, approved by the Council in February 2020, includes a Medium Term Resources Strategy (MTRS) to 2023/24 that forecasts inflationary pressures and continuing increasing demand for social care services, with considerable uncertainty around central government funding from 2021/22.

Significant levels of savings are required to balance the budget in each year of the MTRS.

The 2020/21 budget assumes £58 million of savings and increased income. There are a number of initiatives in progress to generate these savings, including contract efficiencies, back office savings through process efficiency, service redesign and digital services, increasing income from fees and charges and commercial activity and development of the Council's fostering service.

The MTRS indicated that the Council still needs to find a further £71 million of savings over the medium term to 2023/24. This position may improve or deteriorate when funding becomes more certain.

The Council needs to maintain a strong focus on identifying further savings and producing a balanced budget over the medium term.

Work performed

We carried out the following planned audit procedures:

- Reviewed the financial outturn for 2019/20 and progress against the 2020/21 budget, as a starting point for assessing the effectiveness of financial management arrangements;
- Considered the reasonableness of the MTRS assumptions, including investment costs associated with major savings schemes and capital projects; and
- Reviewed arrangements to identify savings, including any relevant Internal Audit work, evidence underpinning a sample of identified savings schemes, and progress towards identifying further savings to balance the budget in the medium term.

SUSTAINABLE FINANCES 1

Contents

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required savings may not be delivered.

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings to be reported	

Overall conclusion

We are satisfied the Council has adequate arrangements for business planning, budget setting, monitoring and taking mitigating actions to eliminate the impact of any overspends and undeliverable savings. As a result, it has retained its track record of delivering underspends in the General Fund in 2019/20 and is expected to deliver the majority of its savings for 2020/21, either through planned methods or through mitigating actions.

The MTRS in February 2020 reflects known savings and cost pressures and the key assumptions are reasonable, although there is significant uncertainty in future funding levels.

The MTRS indicated unidentified savings gaps of £71 million by the end of 2023/24. This gap is expected to increase as a result of council tax and business rate funding decreases during the Covid-19 pandemic.

If no further savings are made in 2021/22 to 2024/25 above those already identified, we understand that the Council would have sufficient reserves to cover this shortfall in the medium term, if necessary, and maintain its general fund balance at 6% of the net budget.

The financial position remains challenging, as each year of the MTRS requires savings to be achieved recurrently. The Council would not have sufficient reserves to cover its cumulative savings requirement by the end of the MTRS period if it does not continue to demonstrate strong leadership and action in achieving the planned savings. However, we are satisfied that the Council has adequate arrangements in place to remain financially sustainable in the medium term.

SUSTAINABLE FINANCES 2

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required savings may not be delivered.

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings to be reported	

Detailed results

Financial outturn for 2019/20

The Council delivered £62.7 million of reduced costs/increased income in the year, which exceeded the savings target of £59.6 million. Of this, £43.1 million savings were delivered by the original planned method, £3.1 million savings were over-delivered and £16.5 million planned savings were not delivered but were covered by alternative mitigation actions (such as savings or deferred expenditure in other areas).

Overall the Council achieved an underspend of £6.3 million against its final estimate for the year. This related to:

- £3.4 million net under spend on interest, capital financing and dividends (due to higher than planned investments and deferral of external borrowing for capital financing purposes until the end of the financial year);
- £6 million net underspend by services, largely in adult social care (following a review of day care packages and direct payments), infrastructure (following recovery measures) and a one-off saving from an actuarial valuation of insurance liabilities;
- Partly offset by £1.5 million lower than expected government grants and £1.6 million additional appropriations into earmarked reserves.

The net underspend was transferred into earmarked revenue reserves. As a result, the Council closed the year with a general fund balance of £56.4 million, a decrease of £171,000 over the prior year balance. This remains at the 6% minimum level recommended by the Section 151 officer.

Earmarked general reserves increased by £44.1 million in the year, to £339 million at 31 March 2020. A large portion of the Council's earmarked reserves are restricted to specific revenue commitments or held on behalf of others and therefore not available to support general spending by the Council. The total of these earmarked reserves at 31 March 2020 is £234.4 million. The remaining £104.6 million of unrestricted earmarked reserves and reserves earmarked for future capital investment at 31 March 2020 will support carried forward expenditure from 2019/20, provide a cushion against future risks, and assist the Council in achieving transformational change and efficiencies.

SUSTAINABLE FINANCES 3

Contents

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required savings may not be delivered.

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings to be reported	

Progress against the 2020/21 budget

The 2020/21 budget includes a savings requirement of £57.7 million for the year. As at period 6, management was forecasting that it would achieve £57.5 million savings, with these schemes being rated as follows:

- £42.3 million as 'Green' as they are on track to be delivered (either through the original planned method or through alternative methods);
- £5 million as 'Amber' as plans for some savings initiatives are still being developed and additional resources have been assigned to address the remaining gap;
- £9.4 million as 'Red' as there is a higher risk of non-delivery, mainly due to plans not being in place, although there are arrangements to progress these projects; and
- £0.8 million of proposed mitigation actions to compensate for non-deliverable saving schemes.

We have noted that management was prudent in its delivery risk assessments during 2019/20 and 2018/19, by only reporting savings as 'Green' when they had been fully delivered.

As at period 6, the forecast revenue overspend is £2.3 million (0.2%) for the year, mainly due to Covid-19 related pressures on Place and Public Health spend. The forecast overspend has reduced from £12.3 million as at period 3 and £5.2 million as at period 4, but increased from £2 million at period 5. Due to the uncertainty in predicting the full impact of Covid-19 on the Council's expenditure and government funding, further volatility in the forecast position may continue as the year progresses.

SUSTAINABLE FINANCES 4

Contents

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required savings may not be delivered.

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings to be reported	

Arrangements to identify savings

During 2019/20 officers carried out a detailed two-phase business planning process to ensure clarity around medium-term political direction and priorities and to develop detailed business plans to align with the strategic intentions. The aim of the process was to allow for business plans to set out transformation priorities and measures to deliver a balanced budget and MTRS. A significant amount of work was completed to identify savings to close the budget gaps and draft, four year business plans were presented to the corporate leadership team and members by the end of July 2019.

Internal Audit carried out an audit of 'Budget setting and medium term financial planning' in March 2020 and awarded a 'Satisfactory' assurance level. This means that there is basically a sound system of control, but there are some areas of weakness, which may put some objectives of the system or process objectives at risk. They concluded that the corporate business planning process is becoming more mature and beginning to demonstrate how medium term financial challenges will be addressed. However, they reported that there is a need to continue to improve the extent to which the business plans provide a consistent level of insight into how financial resources will be used to support any required improvements or transformational initiatives (e.g. investment required, savings or income to be achieved) and therefore effectively and sustainably address medium term financial challenges.

The business planning process during 2020/21 required business plans to be updated by the end of September 2020 to take account of early Covid-19 recovery/reimagine work and emerging budget propositions (savings and investments). We understand that the business plans will continue to be reviewed and updated during the 2021/22 budget setting process.

Whilst the identification of savings proposals is challenging and continues to require strong planning and monitoring by the Council, the Council has a history of achieving its savings targets and delivering underspends in prior years. We are also satisfied that there are adequate plans and monitoring arrangements underpinning individual savings schemes to support delivery.

SUSTAINABLE FINANCES 5

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required savings may not be delivered.

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings to be reported	

MTRS 2021 - 2024

The MTRS to 2023/24, which was approved by Cabinet in February 2020, made the following key assumptions about the medium term, which are considered reasonable in the circumstances as there is no formal confirmation of government funding beyond 2020/21:

- Revenue support grant will continue at the 2019/20 level (£19 million);
- The new social care grants (£23 million) will continue;
- No rate increase in council tax after the 1.99% increase and 2% social care precept in 2020/21, but a 1% increase in the tax base from housing growth, based on historic trends;
- Growth of 1% in business rates, based on historic trends and an inflationary uplift;
- Inflationary increases for fees and charges, pay expenditure and other contractual commitments;
- A rise in the revenue costs of borrowing to finance the capital programme, up to an estimated 10.8% of the net budget by 2023/24, as the Council plans to invest considerable sums through the capital programme over the medium term, some of which will help to deliver revenue savings; and

The MTRS assumed that the following movements in reserves by 31 March 2023:

- General fund balance unchanged;
- Increase in unrestricted earmarked reserves by £5.4 million; and
- Decrease in restricted earmarked reserves by £20.1 million, as reserves are used for the specific purposes for which they are held.

Overall, the MTRS indicated cumulative required savings of £177 million by the end of 2023/24. Savings totalling £106 million were identified (£58 million in 2020/21, £20 million in 2021/22, £14 million in 2022/23 and £14 million in 2023/24). This left a gap of £71 million, with £14 million to be found in 2021/22.

SUSTAINABLE FINANCES 6

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required savings may not be delivered.

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings to be reported	

MTRS 2022 - 2025

A refresh of the MTRS by officers began in July 2020 and scenario modelling has been carried out. This has identified a larger budget gap for 2021/22, mainly due to the potential extent of funding decreases the Council faces from reducing council tax and business rates income during the pandemic. The 2021/22 gap is also impacted by undeliverable savings in 2020/21 that are being mitigated by one off actions.

The revised savings requirement for 2021/22 is below the average level of new savings of £60 million achieved, or expected to be achieved, in 2019/20 and 2020/21, although it is on top of previous savings that are expected to be achieved recurrently.

Work is in in progress to identify all required savings for 2021/22 and to reduce the budget gap over the medium term.

Contingency

The half year financial review presented to Cabinet in October 2020 forecasts the following reserves by 31 March 2021, (movements compared to the balance at 31 March 2020 per the financial statements are shown in brackets):

- General Fund balance of £66.6 million (increase of £10.2 million);
- Unrestricted earmarked reserves of 106 million (increase of £1.4 million); and
- Restricted earmarked reserves of £180.7 million (decrease of £53.7 million).

In the event that no new savings are identified or achieved to close the budget gap by 2024/25, the Council has sufficient unrestricted earmarked reserves and general fund to cover this shortfall in the medium term, if necessary, and retain the general fund balance at the minimum 6% level.

OVERVIEW

Contents

Opinion on financial statements

We anticipate issuing an unmodified opinion on the Group and the Council financial statements.

Our opinion includes an 'emphasis of matter' paragraph regarding the material uncertainty attached to both the valuation of the Council's land and buildings (including investment property) and the valuation of property assets held by the pension fund.

Conclusion on use of resources

We are proposing to issue an unqualified use of resources conclusion.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Group's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

Audit certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's whole of government accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our use of resources conclusion.

INDEPENDENCE

Contents

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2020.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Contents

Fees summary	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee			
• Code audit fee: consolidated Group and single-entity financial statements and use of resources	(1)134,420		126,265
• Additional fee for risk related work	(2) 3,000		N/A
Non-audit assurance services	137,420		126,265
Fees for other non-audit services			
• Teachers' pensions return	12,000		12,000
Total fees	**149,420**		**138,265**

(1) The increase in the core audit fee of £8,155 reflects the increased expectations relating to the work necessary to audit valuations of non-current assets, pension liabilities and group accounts. This does not include work necessary to audit the actuary's data cleansing exercise undertaken as part of their triennial valuation of the Pension Fund which is included as an element of assurance work in that Audit Planning Report and so not duplicated here.

(2) The additional fee for risk related work covers the following risks:

- Disposal of Essex Education Services
- Termination of Tendring PPP

APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidated and Council financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Council had not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit, Governance and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Contents

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit, Governance and Standards Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Planning Report	6 March 2020	Audit, Governance and Standards Committee
Audit Completion Report	30 November 2020	Audit, Governance and Standards Committee
Annual Audit Letter	TBC	Audit, Governance and Standards Committee

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2020.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on the conclusion of these matters at the Audit, Governance and Standards Committee meeting at which this report is considered:

Conclusion of audit procedures relating to:

- Group consolidation

Completion of audit procedures programmed for the end of fieldwork:

- Manager, partner and quality control reviews and clearance of review points
- Clearance of technical review (including wording of audit report)
- Subsequent events review
- Management letter of representation, as attached in Appendix E to be approved and signed

DRAFT AUDIT REPORT

Contents

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

Opinion on the financial statements

We have audited the financial statements of Essex County Council ("the Council") and its subsidiaries ("the group") for the year ended 31 March 2020 which comprise the Council and group Comprehensive Income and Expenditure Statement, the Council and group Movement in Reserves Statements, the Council and group Balance Sheets, the Council and Group Cash Flow Statements and notes to the financial statements including a summary of significant accounting policies. 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the group as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, 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, Finance and Technology use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director, Finance and Technology has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council'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.

DRAFT AUDIT REPORT 2

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Emphasis of matter - valuation of land and buildings (including investment properties) and Pension Fund assets

We draw attention to Note 3 to the financial statements, which refers to the outbreak of the Novel Coronavirus (COVID-19) and the impacts on global financial markets. In respect of the Council's property assets the Note explains that the Council can attach less weight to previous market evidence to inform opinions of value as at 31 March 2020. The Council's valuations are therefore reported on the basis of 'material valuation uncertainty' per VPS 3 and VPGA 10 of the RICS Valuation - Global Standards. The Note explains that, consequently, less certainty - and a higher degree of caution - should be attached to the valuations than would normally be the case.

The valuation of land, buildings and investment property of £1.491.93 million have therefore been reported on the basis of a 'material valuation uncertainty'.

Note 3 also explains that valuations applied by the Pension Fund to property, equity and other investments are also reported on the basis of a material valuation uncertainty.

Our opinion is not modified in respect of this matter.

Other information

The Executive Director, Finance and Technology is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts is consistent with the financial statements.

Conclusion on use of resources

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in April 2020, we are satisfied that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we are required to report by exception

We have nothing to report in respect of the following other matters which the Code of Audit Practice requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement is not misleading or inconsistent with other information that is forthcoming from the audit;

DRAFT AUDIT REPORT 3

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- we issue a report in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- 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.

Responsibilities of the Executive Director, Finance and Technology and the Council

As explained more fully in the Statement of the Executive Director, Finance and Technology, the Executive Director, Finance and Technology is responsible for the preparation of the Statement of Accounts, which comprises 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, and for being satisfied that the financial statements give a true and fair view.

In preparing the financial statements, the Executive Director, Finance and Technology is responsible for assessing the Council's and group'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 Council intends to cease operations of the Council or group or has no realistic alternative but to do so.

The Council 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

In respect of our 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 at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditor's responsibilities in respect of the Council's use of resources

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criterion specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

DRAFT AUDIT REPORT 4

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Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our use of resources conclusion.

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 as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's 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 Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

David Eagles, Key Audit Partner
For and on behalf of **BDO LLP**, Appointed Auditor
Ipswich, UK
30 November 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

LATEST REGULATORY DEVELOPMENTS

Future of Audit, Regulation and Market Competition

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A number of corporate governance, financial reporting and audit failures since the 'financial crises' have led to auditing being the focus of the BEIS Select Committee and the commissioning of three separate, but related, independent reviews scrutinising audit, auditors and the corporate and audit regulatory environment. Although these independent reviews started at various times since 2018, none have yet fully concluded upon and further consultations on precisely what the implementation will look like is expected to take place during 2020. However, that is not to say that changes have not already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. There have also been a number of changes arise through regulation such as the further restriction on non-audit services introduced with the new ethical standard in December 2019. Other expected changes will be implemented via a suite of consultations expected in 2020. Detailed below is a summary of the current reports issued and their status with a summary of the contents.

Initiative	Timeline 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Status
BEIS Select Committee	'Carillion' report issued 5/2018	'Future of audit' report issued 24/4/2019	Government response issued 7/6/2019			It is a priority area for the Committee which has a watching brief
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	Launch of Market study 9/10/2018	Responses to consultation 21/1/2019	Report and recommendations published 18/4/2019	First BEIS consultation on implementation ended 13/9/2019		Further consultations expected in 2020
'Report of the Independent Review in to the quality and Effectiveness of Audit' - Sir Donald Brydon		Team appointed to undertake review 2/2019	Consultation ended 7/6/2019		Brydon report issued 9/12/2019	Further consultations expected in 2020
'Independent Review of the FRC' by Sir John Kingman	Kingman Report published – 83 recommendations 18/12/2018	Secretary of State announces plans for a new regulator (ARGA) 11/3/2019	48 recommendations to be implemented by FRC BEIS first implementation consultation ended 11/6/2019			Further consultations expected in 2020

LATEST REGULATORY DEVELOPMENTS 2

Continued

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Report	Topic	Key points
'Independent Review of the FRC' by Sir John Kingman	December 2018 - Future of regulation and the FRC - requested by the Secretary of State	• Highlighted deficiencies in FRC and its operating effectiveness • New regulator to replace FRC 'Audit, Reporting and Governance Authority' • Reconsideration of which entities are classed as 'public interest' A number of changes require legislation changes but the FRC is working on implementation where possible.
Related BEIS consultation	BEIS consultation - independent review of the FRC - March 2019 - Recommends adopting a significant number of the Kingman proposals without further consultation - ended June 2019	The proposals being classed as: • FRC and BEIS will implement as soon as possible • Can be implemented once considered, in advance of legislation • Primary legislation required Further consultations are expected and will form part of the 2020 suite of consultations undertaken.
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	April 2019 - Future of market competition	Report 18 April 2019 – suggestions include • Increased accountability of audit committees including a focus on how they select auditors and their consideration of audit quality • Mandatory joint audits for largest companies including one member not from the big 4 and peer reviews • An operational split between the audit and non audit practices of the big 4 • A 5 year review of progress by the new regulator Further consultations are expected and will form part of the 2020 suite of consultations undertaken.

LATEST REGULATORY DEVELOPMENTS 3

Continued

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Report	Topic	Key points
BEIS (Business, Energy and Industrial Strategy Committee) Report 'The Future of Audit' - 24 April	Consideration of 2 reports – CMA and Kingman – to ensure they will lead to coherent framework	This report considers the CMA and Kingman reports and supports their recommendations and encourages implementation. In particular: • Implement Kingman recommendations as soon as possible • Endorsement of CMAs suggestion to split firms operations between audit and non-audit • Segmented market cap and joint audits for FTSE 100 • Detecting fraud a priority • Tightening of dividend regime • Make audit more forward looking • Welcomes introduction of ARGA – deal with failures more quickly and more stringently Published June 2019.

LATEST REGULATORY DEVELOPMENTS 4

Brydon

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In December 2019 Sir Donald Brydon published his "Report of the Independent Review in to the quality and Effectiveness of Audit" . This report proposes a fundamental changes to the audit profession, the scope of audit and how the Audit Committee interacts with auditors and shareholders. The report introduces over 100 actions in a number of areas including:

- Audit Purpose, Audit Profession and Auditor reporting;
- Directors' Reporting;
- Role of Shareholders;
- Other stakeholders;
- Internal Controls;
- Fraud;
- Transparency;
- Technology;
- Auditor Liability;
- Audit and Risk Committees;
- KPIs and APMs (Alternative Performance Measures); and
- ARGA - the new regulator.

Key considerations for Audit Firms

- A new definition of audit: " The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements."
- Recognition of other stakeholders alongside the company's shareholders;
- Creation of a standalone audit profession as opposed to an extension of the accounting profession;
- Introduce the need for 'professional suspicion' alongside 'professional scepticism';
- Replace 'true and fair' with 'present fairly, in all material respects';
- Retain binary audit opinion but create continuity between reports, increase transparency further, have regard to other public information;
- Report specifically on the directors' statement in relation to fraud; and
- Audit firms ensure a clear separation between the team which negotiates the audit fees, and the team which carries out the audit.

Key considerations for Audit Committees are as follows

- Recommendations for Directors to present to shareholders a three year audit and assurance policy dealing with auditors appointment, assurance budget and risks;
- Directors to present an annual Public Interest Statement and Resilience Statement (replacing the going concern and viability statements) in the annual report;
- Directors to present an annual statement on the actions they have taken to prevent fraud;
- CEO and CFO to provide an annual attestation to the board of directors as to the effectiveness of the company's internal controls over financial reporting;
- Directors be required to disclose when any material failure of their internal controls has taken place;
- Any Alternative Performance Measures reported by a company, and any use of Key Performance Indicators to underpin executive remuneration, should be subject to audit; and
- Publication by the directors of a risk report in advance of the audit with shareholders to be given a formal opportunity to propose matters to be covered in the audit and also permitted to question the Audit Committee Chair and the auditor.

LATEST REGULATORY DEVELOPMENTS 5

Redmond

On 8 September 2020, Sir Tony Redmond published his *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*

The Report includes a number of key recommendations, including:

- The establishment of new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit, taking on certain responsibilities from Public Sector Audit Appointments (PSAA), Institute of Chartered Accountants in England and Wales (ICAEW), FRC/ARGA, and the Comptroller and Auditor General (C&AG)
- The governance arrangements within local authorities be reviewed by local councils with the purpose of:
  - an annual report being submitted to Full Council by the external auditor;
  - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
  - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
- The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- Quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.
- The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

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FRC ETHICAL STANDARD

Issued in December 2019

Contents

In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an *SME listed entity* - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

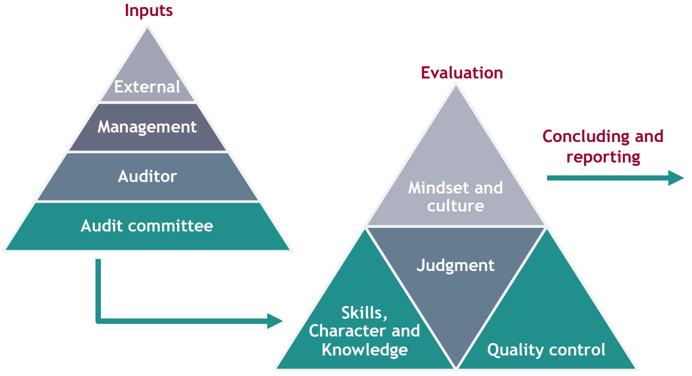
FRC PRACTICE AID FOR AUDIT COMMITTEES

The FRC issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the **FRC website**. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and worthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding:



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the **FRC website**.

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LETTER OF REPRESENTATION

[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of Essex County Council for the year ended 31 March 2020

We confirm that the following representations given to you in connection with your audit of the Group and the Council' financial statements for the year ended 31 March 2020 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Executive Director, Finance and Technology has fulfilled her responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2020 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Group and the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

Other than those disclosed in the financial statements, there have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

LETTER OF REPRESENTATION 2

Contents

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 38 to the financial statements, there were no loans, transactions or arrangements between any Group entity and Council members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the controlling party of the Council are accurate.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and Council financial statements.

Accounting estimates

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- RPI increase 2.7%
- CPI increase 1.9%
- Salary increase 2.9%
- Pension increase 1.9%
- Discount rate 2.35%
- Mortality: Current pensioners - male 21.8 years and female 23.7 years / future pensioners - male 23.2 years and female 25.2 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19.

LETTER OF REPRESENTATION 3

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b) Valuation of land and buildings and investment property

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation of land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Nicole Wood
Executive Director Finance and Technology

XX November 2020

Councillor Anthony Hedley
Chair of the Audit, Governance and Standards Committee

XX November 2020

AUDIT QUALITY

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the FRC's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

David Eagles

t: 01473 320728
m: 07967 203431
e: david.eagles@bdo.co.uk

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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