

Annual Governance Report

Essex County Council

Audit 2009/10

Date

Contents

Key messages	4
Next steps	7
Financial statements	8
Value for money	15
Glossary	17
Appendix 1 – Independent auditor’s report to Members of Essex County Council	18
Appendix 2 – Amendments to the draft accounts	24
Appendix 3 – Unadjusted misstatements in the accounts	26
Appendix 4 – Draft letter of representation	30
Appendix 5 – Value for Money Criteria	34
Appendix 6 – Action Plan	35

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Members of The Audit Committee

2009/10 Annual Governance Report

I am pleased to present my report on the results of my audit work for 2009/10.

I discussed the draft report with the Director for Finance on 8 September.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 8 to 13);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Rob Murray
District Auditor

September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	
Financial statements free from material error	Yes	
Adequate internal control environment	Yes	
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes with a qualification, please see paragraph 11	

Audit opinion and certificate

- 1 The audit is still ongoing but I expect to issue an unqualified true and fair audit opinion on the Council's financial statements in advance of the deadline, 30 September 2010. I plan to issue a qualified opinion on the value for money arrangements in place at the Council.
- 2 I am qualifying my value for money (VFM) opinion because of inadequate arrangements for some aspects of governance at the Council in 2009/10. The Council has now taken action to address the issues I identified and I will monitor progress against the Council's action plan in 2010/11.
- 3 The previous District Auditor, Paul King, expects to issue the 2008/09 certificate by 30 September and I will then issue the 2009/10 certificate.

Financial statements

- 4 The financial statements were approved by the Audit Committee on 28 June 2010. The Council is making a number of amendments to those statements in response to our audit findings. A revised version of the financial statements will be available to the Audit Committee on 27 September 2010.

Key messages

- 5 My audit has identified errors with accounting for fixed assets. The Council introduced a new fixed asset register in 2009/10 and there have been a number of errors and delays in producing the information for the accounts.
- 6 The Council has included assets funded through the Private Finance Initiative (PFI) and Service Concessions this year for the first time in response to the new requirements arising from the early adoption of one aspect of International Financial reporting Standards (IFRSs). My work in this area is still ongoing. The Council and I have now reached agreement on the accounting treatment and the Council is adjusting the accounts to reflect this. In addition some of the initial accounting entries are being corrected as the Council now has the information required. I have raised a number of queries which the Council is currently addressing.
- 7 In addition to the errors highlighted in this report on fixed assets the Council has agreed to make a number of other amendments. I will need to confirm these have been made before issuing my opinion.
- 8 I agreed a timetable for working papers to support the accounts with the Council which would have facilitated early audit testing in a number of areas. Unfortunately the Council was unable to meet a number of key deadlines, particularly for fixed assets.
- 9 The quality of working papers has improved this year, particularly on grants reconciliations but some areas still need to improve.
- 10 The finance team and many other Council officers have been very helpful answering a number of audit queries and I would like to thank them for their cooperation.

Value for money

- 11 I have concluded that the Authority met at least the minimum standards during 2009/10 for all of the eight criteria assessed except for good governance. I therefore propose issuing a qualified value for money conclusion prior to the statutory deadline of 30 September 2010.
- 12 My work on assessing the Council's Use of Resources ceased when the government announced the abolition of this assessment framework in May 2010. However I had completed sufficient work to inform my value for money opinion.
- 13 Essex County Council has a good arrangements in place for finance and use of natural and human resources but 2009/10 was a challenging year for the Council's governance arrangements.
- 14 The Council has an action plan in place to address governance issues and the Council's Corporate Governance Group will oversee its implementation.

Audit fees

- 15 My audit is still ongoing. The additional work on fixed assets as a result of errors and delays may result in an additional fee but this will be discussed in the first instance with the Director for Finance and the Committee will be updated.

Independence

- 16** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

17 I ask the Audit Committee to:

- consider the matters raised in the report before publishing the financial statements (pages 8 to 13);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 18** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. It is important to note that I have not seen a revised set of accounts.

Errors in the financial statements

- 19** I identified errors in the financial statements (other than those of a trivial nature) and reported these to management. I understand most non-trivial errors identified have been corrected but I have summarised those for fixed assets in Appendix 2 to illustrate the ongoing difficulties in that area.
- 20** I have summarised the errors which management has decided or been unable to correct in Appendix 3.
- 21** I will need to confirm which errors have been corrected before issuing my opinion.

Recommendation

- R1** Review the errors on fixed assets, determine the causes and address them prior to producing the 2010/11 financial statements.

Important weaknesses in internal control

- 22** Our interim audit identified some weaknesses in the design or operation of an internal control that might result in a material error in your financial statements. We have obtained sufficient assurance that the accounts are not materially misstated through substantive testing at year end but I am required to report these weaknesses to those charged with governance:
- the Council has now taken steps to address the risk of significant errors on journals but the risk remained for most of 2009/10. For most of the year officers were able to input journals without the need for a second officer to authorise the entry and there was no retrospective risk-based review of journals. A new Accounting

Financial statements

Instruction Note (AIN) was issued for journals in February 2010 to address these risks;

- the Council is not assessing care packages in place for Adult Social Care clients annually. There are insufficient compensating controls in place to confirm the liability to pay for the care still exists and that the amount being paid is correct; and
- non-Market Place invoices are not being approved in line with the new Scheme of Delegation database.

23 The Council has a compensating control in place for these weaknesses where budget holders are asked to sign off transaction reports monthly. The effectiveness of this control is gradually improving and may mitigate the risk of other controls failing in future years.

24 I have not provided a comprehensive statement of all weakness which may exist in internal control, nor of all improvements which may be made, but have addressed only those matters which have come to my attention because of audit procedures I have performed.

25 The Council's Annual Governance Statement is more detailed this year but there is still scope to consider the balance between highlighting the positive progress made during 2009/10 which is included alongside more detail on areas of weakness that remained in 2009/10.

Recommendation

R2 Ensure the control weaknesses identified on journals, review of care packages and authorisation of non market place invoices are addressed or adequate compensating controls are in place for 2010/11.

R3 Ensure the 2010/11 Annual Governance Statement is well balanced reflecting areas of weaknesses that need to be addressed as well as those that have already improved.

Letter of representation

26 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Key areas of judgement and audit risk

27 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>The Council is required to reflect the requirements of International Financial Reporting Interpretation Committee 12 (IFRIC 12) for 2009/10 as the first stage of the transition to International Financial Reporting Standards (IFRSs). This was likely to impact on the Council's accounting treatment for assets sourced via Private Finance Initiative (PFI) schemes. The Council engaged an external accountancy firm to provide support for this process. We requested the Council's proposed accounting treatment for all items where IFRIC 12 had an impact by April 2010 and the calculations to support the treatment and figures in the accounts by the beginning of June.</p>	<p>The Council was unable to provide the information in line with the requested timetable.</p> <p>A number of assets were brought onto the balance sheet under IFRIC 12 but initially this was at cost rather than fair value. The assets were therefore understated originally but this has now been corrected. There were complex areas to consider on the accounting treatment of schools funded through PFI schemes. There have been discussions nationally and I have now reached an agreement with the Council which has resulted in significant amendments to the accounts which has taken the Council time to work through.</p>
<p>The Council introduced a new fixed asset system during 2009/10. Internal Audit reviewed the transfer of information from the previous fixed asset spreadsheet based system, the reconciliation of the two systems and reviewed 15 assets in detail to check that all details were transferred correctly.</p>	<p>Our audit has identified a number of errors on fixed assets. The working papers to support the fixed asset balances were very late and delayed the audit. Responses to some queries have been slow. Appendix 2 summarises the errors identified.</p>
<p>Fixed asset impairments to reflect the fall in value of Council assets in the current economic climate were not reflected correctly in the accounts presented for audit in 2009/10 which caused a material error.</p> <p>We wrote to the Council's valuer asking for assurances on the processes in place for fixed asset revaluations, including impairments and we have tested that the Council has accounted for the adjustments required correctly.</p>	<p>I have reviewed the impairment adjustment made this year in detail because it was higher than expected. I have concluded that I can rely on the Council's valuer who estimated a further decrease of 10% in property values this year.</p> <p>I have queried the accounting adjustments made for impairment but the Council has not been able to respond on all issues yet.</p>
<p>In previous years the year end balances for schools have been significantly misstated, including cash.</p> <p>We have met with the Council on a</p>	<p>Some schools have incorrectly included capital debtors and creditors in revenue.</p> <p>A relatively low level of expenditure was</p>

Issue or risk	Finding
<p>number of occasions to discuss the causes of the misstatements. Additional guidance has been issued by the Council to the internal Schools Service and individual schools in an attempt to mitigate the risk of these errors. However due to the number of schools in Essex and the wide variety of systems and controls in place, a residual risk of a material misstatement remained.</p> <p>We have reviewed internal audit's programme of work at schools during 2009/10 and considered the volume, value and nature of the errors found to determine the impact on our opinion.</p>	<p>identified by internal audit as being inadequately supported. Extrapolation of these errors suggests there is uncertainty on £1.208 million pounds of expenditure but this is in the context of overall expenditure in schools of nearly £1 billion.</p>
<p>The Council has implemented procedures for journal controls from February 2010 but prior to that guidance was very limited. Internal Audit issued a limited assurance opinion on journal controls.</p> <p>We increased our journal testing for 2009/10 to reflect the fact that expected controls were not in place.</p>	<p>Subject to completion of the audit, my testing of journals did not identify errors apart from those on fixed assets which were input to the ledger via a journal. These errors were caused by a range of issues but it appears that the journal controls did not prevent them being included in the accounts.</p>
<p>Accounting treatment for wholly owned Council companies.</p> <p>The Council produced group accounts this year for the first time following the transfer of some services to Essex Cares. We will be reviewing the outcome of the audit of Essex Cares by its external auditors. We have considered the status and treatment of other Council owned companies, past and present.</p>	<p>The audit opinion for Essex Cares was expected by 31 July 2010 but I have not received a copy yet. I expect the opinion to be qualified in relation to the stock value but the Council has written this out on consolidation.</p> <p>The Council was not able to resolve all my queries on Group Accounts but I have sufficient assurance that they are not materially misstated.</p> <p>The Council is the accountable body For The Haven Gateway Partnership. The Council has excluded transactions relating to The Partnership this year for the first time. The amounts are immaterial but I have asked the Council to revisit this to confirm that the arrangements for external audit on the Partnership are in line with</p>

Issue or risk	Finding
	legislation and that the governing agreements for the Partnership are adequate in terms of legal agreements.
There is intense public interest in member expenses nationally and for Essex County Council. The total member expenses paid is published in the accounts and many Councils include the details of amounts paid to individuals. We tested the disclosure on member allowances to ensure it is accurate and that the expenses claimed are in line with the Council regulations.	The Council now publishes member expenses on its website more promptly. Internal audit reported to the Audit Committee earlier in the year on the outcomes of its work on corporate credit and procurement cards, resulting in some recommendations for improvement that are being implemented.
District Councils now account for council tax on an agency basis so money not collected at year end is accounted for in the County Council's accounts rather than the District Councils. There was a risk that the information provided by the District Councils could be misstated.	I am satisfied that the Council has used the information provided by the District Councils correctly and has some internal controls in place to challenge the validity of the information. However due to one District Council having a qualified opinion in 2008/09, I requested additional assurance from their external auditor which has now been received.

Accounting practice and financial reporting

28 I consider the non-numeric content of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

Issue or risk	Finding
Government grants for capital expenditure	The Council is not amortising government grants deferred in line with the useful economic lives of the assets the grant relates to as required by the SORP. The required accounting treatment will change from 2010/11 under IFRS so this will no longer be an issue.
Infrastructure assets	Historically the Council's fixed asset register for infrastructure assets does not meet the SORP requirements. Expenditure incurred in previous years has not been

Issue or risk	Finding
	separately identified to individual assets on the register so they are depreciated as one asset in effect.
Revaluation Reserve	The Council was not able to provide a working paper to support the revaluation until 9 September. The working paper included a number of differences that the Council is still investigating. My work in this area is therefore still ongoing.
Group Accounts	<p>The Council has prepared group accounts in 2009/10 for the first time following the establishment of Essex Cares, a Council owned company. We have sufficient assurance that the group accounts and related notes are not materially misstated, subject to receipt of the audit opinion, but there are a number of issues that the Council should consider further before preparing the 2010/11 group accounts:</p> <ul style="list-style-type: none"> • The group accounts include £0.5 million negative goodwill which has been amortised to revenue relating to the pension asset transferred to Essex Cares which hasn't been paid for. The Council has not provided sufficient evidence to support this accounting entry; • The group accounts were prepared based on the draft accounts for Essex Cares. These have been amended in a number of areas following the company's audit but the changes have not been reflected in the group accounts; • It is not clear why the Council has not made all the disclosures required by SORP 2009 and FRS 6 but we have sufficient assurance that the accounts are not materially misstated as a result.

Recommendation

R4 Ensure the external audit opinions for companies owned by the Council are available in accordance with the agreed timetable.

R5 Improve the arrangements for group accounting so:

- there is sufficient information to support consolidation entries;
- amendments made to the company accounts post audit are reflected in the group accounts; and
- it is clear how the Council has decided which disclosure notes are required.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

Value for money conclusion

- 29** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission which I have listed in Appendix 5.
- 30** I intend to issue a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except for the good governance criteria. Appendix 1 contains my draft report.
- 31** My work on assessing the Council's Use of Resources ceased when the government announced the abolition of this assessment framework in the summer 2010. However I had completed sufficient work to inform my value for money opinion.
- 32** Essex County Council has a good financial standing record. 2009/10 has presented financial pressures as resources have been directed to performance issues in Schools Children and Families. The 2010/11 budget has risks attached and very challenging targets to meet but these have been communicated to members explicitly.
- 33** The Council is focused on costs and continues to progress its transformation programme to save significant sums and re-invest where possible in front line services.
- 34** Financial reporting is clear although year end projections did worsen during the year. The Council has worked hard to address the issues that caused the 2008/09 accounts to be materially misstated but I have identified significant errors with fixed assets in 2009/10 which the Council is correcting.
- 35** The Council has a clear purpose and vision supported by The Essex Strategy 2008-2018. Resources are aligned to priorities. Procurement arrangements continue to be strong, data quality is improving and internal control issues are being addressed.
- 36** The Council has demonstrated effective arrangements for the management of resources. Asset management continues to be cost focussed and continually looking for opportunities to improve value for money. The Council takes a leadership role on asset management with partner organisations which is beneficial to all.
- 37** The review of workforce management has found strong arrangements in place across the Council. The Human Resources strategy is integrated into overall Council strategy, performance management is strong, leadership development programmes are in place, the wider skills needed in the economy have been considered, Human Resources input to organisational change is pro active and progress on diversity is good.

Criteria assessed as inadequate

- 38** The Council did not publish key Committee papers in advance of meetings in accordance with the required timescale on a number of occasions and there were only four Cabinet meetings held in 2009/10. The Council did not promote the ethical agenda proactively.
- 39** The Council's Corporate Governance Group will oversee the implementation of the action plan to address the issues highlighted.

Recommendation
R6 Ensure that the governance arrangements at the Council continue to improve and that the ongoing improvements implemented through the Corporate Governance Group Action plan secure a change of culture in the Council.

Glossary

Annual governance statement

40 A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

41 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

42 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Qualified

43 The auditor has some reservations or concerns.

Unqualified

44 The auditor does not have any reservations.

Value for money conclusion

45 The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of Essex County Council

Independent auditor’s report to the Members of Essex County Council

Opinion on the Authority and Group accounting statements

- 46** I have audited the Authority and Group accounting statements and related notes of Essex County Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, and the related notes. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.
- 47** This report is made solely to the members of Essex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director for Finance and auditor

- 48** The Director for Finance’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.
- 49** My responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
- 50** I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:
- the financial position of the Authority and its income and expenditure for the year; and
 - the financial position of the Group and its income and expenditure for the year.

- 51** I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.
- 52** I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

- 53** I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.
- 54** I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Opinion

- 55** In my opinion:
- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
 - The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

Opinion on the pension fund accounting statements

- 56** I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.
- 57** This report is made solely to the members of Essex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director for Finance and auditor

- 58** The Director for Finance’s responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.
- 59** My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
- 60** I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.
- 61** I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

- 62** I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting

policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

- 63** I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

- 64** In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

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

Auditor’s Responsibilities

- 66** I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Qualified Conclusion

- 67** I have undertaken my audit in accordance with the Code of Audit Practice. In so doing, I identified the following:
- the Council did not publish key Committee papers in advance of meetings in accordance with the required timescale on a number of occasions and there were only four Cabinet meetings held in 2009/10; and

- the Council did not promote the ethical agenda proactively.

68 Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, I am satisfied that, in all significant respects, Essex County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010 except for:

- promoting and demonstrating the principles and values of good governance.

Certificate

69 I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Rob Murray, District Auditor

Officer of the Audit Commission

Atlantic Business Centre, 64 Broomfield Road, Chelmsford, Essex. CM1 1SW.

30 September 2010

2008/09 Certificate

Opinion previously issued in advance of closure of the audit – no significant matters coming to the auditor’s attention

Issue of audit opinion

70 In my audit report for the year ended 31 March 2009 issued on 30 September 2009 I reported that, in my opinion, the financial statements presented fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Appendix 1 – Independent auditor’s report to Members of Essex County Council

Issue of conclusion

- 71** As stated in my audit report for the year ended 31 March 2009 issued on 20 September 2009, I reported that in my opinion, in all significant respects, Essex County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009.

Certificate

- 72** In my report dated 30 September 2009, I explained that the audit could not be formally concluded on that date until consideration of matters brought to my attention had been completed. These matters have now been dealt with. No other matters have come to my attention since that date that would have a material impact on the financial statements on which I gave an unqualified opinion and value for money conclusion.
- 73** I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul King, District Auditor

Officer of the Audit Commission

Atlantic Business Centre, 64 Broomfield Road, Chelmsford, Essex. CM1 1SW.

30 September 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements on fixed assets during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities. This is not a complete list of adjustments made. None of the adjustments have had an impact on the general fund balance.

Table 3

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Fixed Assets	2009/10 is the first year where PFI assets are recognised on the Council's balance sheet under IFRIC 12. However some of these assets are schools and the issues involved in determining the correct accounting treatment are complex. The Council has made a number of corrections to the accounting entries and also agreed to adjust the accounts to reflect our view on the correct accounting treatment for schools.				tbc
Loss on Sale/ Revaluation Reserve (tbc)		tbc			
Revaluation Reserve/ depreciation	A school that was brought into use for the first time in 2009/10 was included on the asset register twice.			6,731	
Fixed Assets					6,731

Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
Fixed Assets	The residual interest for PFI assets under the previous accounting arrangements was written out twice in error.			18,000	
Revaluation Reserve					18,000
Fixed Assets	Impairment on assets that have been revalued in year has been miscalculated.				5,200
Impairment		5,200			
Cash	The year end journal for unspent schools capital at year end was incorrect.		2,230		
Fixed Assets/ REFCUS (and related entries)				2,230	

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 4

Description of error	Accounts affected	Value of error £ million
The Council has not included the unfunded liabilities in respect of discretionary benefits paid to teachers in the accounts. The Council has now requested a valuation of this liability from its Actuary with a view to adjusting the accounts but the information is still outstanding. At the moment the estimate is £42 million. As this is considered material we expect the Council to amend.	Expenditure, Pension Deficit Reserve	42.0 (estimate)
Schools income and expenditure is a significant element within the County Council accounts. Internal Audit has a well established rolling programme of testing in place on school transactions. I reviewed Internal Audit's findings for 2009/10 and considered the errors identified. Extrapolation suggested that there is uncertainty or a lack of supporting documentation for a	Children's and Education expenditure	1.028 (estimate only)

Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts affected	Value of error £ million
relatively low proportion of the expenditure in schools given that overall expenditure in this area is nearly £1 billion.		
The calculation for the 10% impairment appears to have been applied inconsistently although we are waiting for a response from the Council on this issue.	Fixed Assets, Revaluation Reserve	4.7 (estimate only)
The revaluation reserve is overstated on the fixed asset. Where assets are split on the Council's system the revaluations are being duplicated. The Council has not used the system for the revaluation entries into the accounts but has relied on the system to calculate which impairments should be charged to the reserve and to expenditure. The difference between the revaluation reserve in the accounts and the system is £2.3 million so any potential error on impairment being charged reserves or expenditure incorrectly would not be material.	Revaluation Reserve, expenditure	2.3 (maximum-estimate only)
Schools are responsible for their year end creditors. Internal audit has done a risk based review of school creditors and identified that they are overstated.	Creditors, capital expenditure, cash	0.7
Some assets have been depreciated fully in error.	Fixed Assets/ Depreciation	7.4
Fixed assets have been impaired to reflect the decline in asset values but the calculation did not take into account revaluations during the year. For those assets impairment should have been	Fixed assets, expenditure	7.3 (estimate)

Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts affected	Value of error £ million
reduced. The Council has not been able to supply the information to calculate this error accurately but I am satisfied this is not material.		
Some schools have incorrectly included capital creditors and debtors under revenue.	Fixed Assets, expenditure	0.6
The historic cost depreciation adjustment is misstated by £0.8 million relating to assets for which no adjustment should be made.	Revaluation Reserve, general reserve.	0.8
There are unexplained debit balances in the Revaluation Reserve of £3.6 million.	Revaluation Reserve, expenditure.	3.6
Fixed asset Vehicle, Plant and Equipment (VPE) is understated. Historically schools VPE was accounted for as land and building but then omitted from revaluations of land and buildings. This has been corrected for new additions since 2007/08 but I estimate that the outstanding error is misclassification of £0.4 million between VPE and land and buildings and an understatement on depreciation of £1.2 million.	Fixed assets, expenditure.	0.4/ 1.2
Actual operating lease payments made in 2009/10 as disclosed in note 26 appear to be understated. The Council has changed its system for gathering the information. It is not clear what the correct figure should be.	Note 26	2.0 (estimate)
The carrying value of assets disposed of during the year is inconsistent in the accounts. The Council has not been able to fully explain the differences.	Profit/ loss on disposal of fixed assets and reserves	1.0 (estimate)

Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts affected	Value of error £ million
The value of an Amenity Site has been included in Land and Buildings and Fixed Assets Under Construction, so has been double counted.	Fixed Assets under Construction, Reserves	0.3
There is a potential £1.8 million misallocation of costs for the A130 PFI scheme. This relates to the A130 where the amounts paid to contractor are lower than expected by the operators costing model. The Council has been unable to resolve this query to date.	Finance Lease Liabilities, Expenditure	1.8

Appendix 4 – Draft letter of representation

To:

Rob Murray, District Auditor

64 Broomfield Road

Chelmsford

Essex

CM1 1SW

Essex County Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Essex County Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts and the Group Accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice, United Kingdom Generally Accepted Accounting Practice and International Financial Reporting Standards which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

- reason 1 etc;
- reason 2
-

Supporting records

74 All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected

Appendix 4 – Draft letter of representation

and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

75 I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

76 There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control that have not already been discussed with you;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

77 There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

78 The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

79 I confirm the reasonableness of the significant assumptions within the financial statements. For fixed asset valuation and impairment, I confirm the appropriateness of the measurement method.

Assets

80 The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and

- assets pledged as collateral.

Compensating arrangements

81 There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in the financial statements we have no other lines of credit arrangements.

Contingent liabilities

82 There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties other than those already disclosed in the financial statements.

Related party transactions

83 I confirm the completeness of the information disclosed regarding the identification of related parties.

84 The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

85 Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements other than those already included.

86 I confirm that the member profile for the Council's pension scheme is in line with the overall member profile of the Pension Fund so that the estimate of the change for future pension increases from retail price index to cost price index is reasonable.

87 The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Public Finance Initiative (PFI) Contracts

88 I confirm there have been no contract variations to PFI contracts agreed by the Council since the contracts were initially agreed.

Signed on behalf of Essex County Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 27 September 2010

Signed

Appendix 4 – Draft letter of representation

Margaret Lee, Director for Finance

27 September 2010

Appendix 5 – Value for Money Criteria

Key Line of Enquiry (KLOE)	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	No
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	Yes
Workforce	Yes

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	2009/10 Annual Governance Report Recommendations					
8	R1 Review the errors on fixed assets, determine the causes and address them prior to producing the 2010/11 financial statements.	3				
9	R2 Ensure the control weaknesses identified on journals, review of care packages and authorisation of non market place invoices are addressed or adequate compensating controls are in place for 2010/11.	3				
9	R3 Ensure the 2010/11 Annual Governance Statement is well	2				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	balanced reflecting areas of weaknesses that need to be addressed as well as those that have already improved.					
13	R4 Ensure the external audit opinions for companies owned by the Council are available in accordance with the agreed timetable.	2				
14	<p>R5 Improve the arrangements for group accounting so:</p> <ul style="list-style-type: none"> there is sufficient information to support consolidation entries; amendments made to the company accounts post audit are reflected in the group accounts; and <p>it is clear how the Council has decided which disclosure notes are</p>	2				

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	required.					
16	R6 Ensure that the governance arrangements at the Council continue to improve and that the ongoing improvements implemented through the Corporate Governance Group Action plan secure a change of culture in the Council.	3				

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, Braille, audio or in a language other than English, please call 0844 798 7070.

© Audit Commission 2010

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

Appendix 6 – Action Plan