Report to the Audit, Governance and Standards Committee

ESSEX COUNTY COUNCIL

Audit Completion Report: Year ended 31 March 2019

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WELCOME
Introduction

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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 2019, 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 Group and the Council 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 July 2019

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the Group and the Council financial statements and use of resources. This report has been prepared solely for the use of the Audit, Governance and Standards Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

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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 and use of resources of the Council for the year ended 31 March 2019. This report will be updated once the outstanding matters identified have been completed.

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 ongoing and we anticipate issuing our opinion on the Group's financial statements and the Council's use of resources for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed on page 39 in the appendices or in the relevant sections detailing work done on the areas of audit risk.

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

We anticipate issuing an unmodified audit opinion on the on the consolidated Group financial statements and the Council's financial statements and use of resources as set out on page 40.

THE NUMBERS

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Final materiality

Final materiality was determined based on gross expenditure.

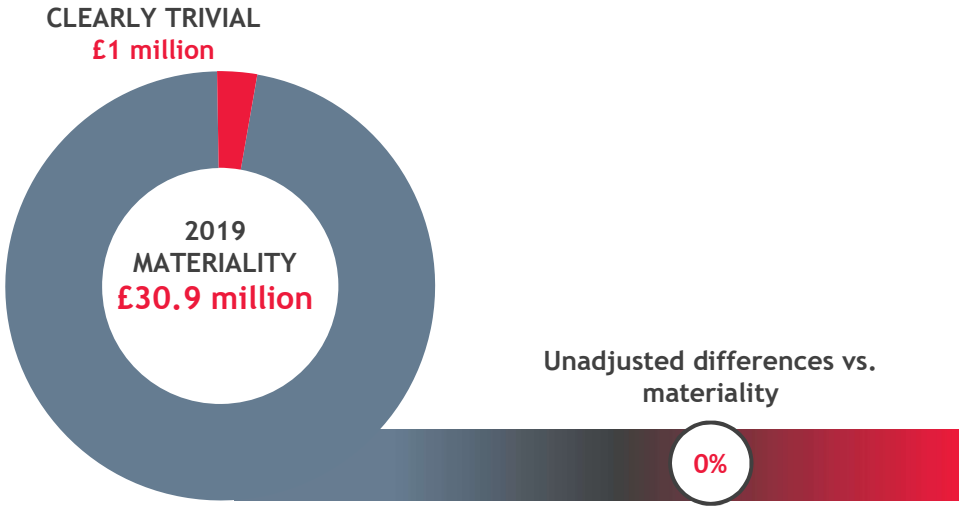
We have increased our materiality from £30.7 million to £30.9 million as a result of gross expenditure in the unaudited 2018/19 financial statements being higher than 2017/18 gross expenditure on which our planning materiality was based.

Material misstatements

Subject to completion of the outstanding matters on page 39, we have not identified any material misstatements.

Unadjusted audit differences

Subject to completion of the outstanding matters on page 39, we have not identified any audit differences that have not been adjusted.



OTHER MATTERS

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Financial reporting

Subject to completion of the outstanding matters on page 39:

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes, other than those relating to IFRS 9, have been identified which have a material impact the current year.
- Our review of the Narrative Report and Annual Governance Statement is ongoing.
- 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. We plan to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's deadline of 13 September 2019.

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 Group and the Council in accordance with the Financial Reporting Council's Ethical Standard.

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AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 1 March 2019 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 Estimates or Judgement	Use of Experts Required	Error Identified*	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	Yes
Revenue and expenditure recognition	Significant	No	No	No	No	No
Property, Plant and Equipment and Investment Property Valuations	Significant	Yes	Yes	No	No	Yes
Pension liability assumptions	Significant	Yes	Yes	Yes, adjusted	No	Yes
Waste PFI	Significant	Yes	No	No	No	No
Related party transactions	Normal	No	No	No	No	Yes
Implementation of IFRS 9 financial instruments	Normal	Yes	No	No	No	No
Implementation of IFRS 15 revenue from contracts with customers	Normal	Yes	No	No	No	No

Areas requiring your attention

* Subject to outstanding matters on page 39

MANAGEMENT OVERRIDE OF CONTROLS

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ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
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 large and/or unusual journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias.

Results

Our audit work on journals and estimates is ongoing at the time of writing. We will provide a verbal updated to the Audit, Governance and Standards Committee.

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REVENUE AND EXPENDITURE RECOGNITION

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

Risk description

In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).

We have rebutted the risk of revenue recognition in respect of the Council's other revenue streams, including taxation and non-specific grant income, fees and charges and interest and investment income.

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of grants recognised as revenue to documentation from grant paying bodies and check whether recognition criteria had been met; and
- Tested a sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period and that all expenditure that should have been recorded at year end had been.

Results

Testing of expenditure either side of the year end is complete and we have no matters to report.

Our work on grants recognised as revenue is in progress. We will provide a verbal update to the Audit, Governance and Standards Committee.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY VALUATION

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There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	■

Risk description

Local authorities are required to ensure that the carrying value of land, buildings and investment properties 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 and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or 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 external valuer and reviewed the valuer's skills and expertise in order to determine if we could rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed accuracy and completeness of asset 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 and followed up valuation movements that appeared unusual; and
- Reviewed all properties not subject to in-year valuation against changes in market conditions to assess the impact on the value of the Council's portfolio

Results

Our work on the valuation of property, plant and equipment and investment properties is in progress. We will provide a verbal update to the Audit, Governance and Standards Committee.

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There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant Control Findings	
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.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the 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 reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewed the controls for providing accurate membership data to the actuary; and
- Checked whether any significant changes in membership data have been communicated to the actuary.

Results

Recent legal cases regarding transitional protection for members of certain public sector pension schemes where the terms of the benefit provided by the scheme have changed determined that these protections were age discriminatory. No allowance was made for these judgements in the information provided to the Council by the actuary for the purposes of preparing its Statement of Accounts due to the uncertainty surrounding the impact on the Local Government Pension Scheme (LGPS).

Following publication of the Council's unaudited 2018/19 Statement of Accounts, the government's request for an appeal relating to one of these cases was refused by the Supreme Court. While the impact on the LGPS is unknown, there is sufficient information to calculate a reasonable estimate of the liability. The Council requested the actuary to prepare updated information recognising the impact of the judgements, resulting in an increase in both past service cost and the net pension liability of £22.4 million.

Management have provided a revised version of the IAS 19 disclosures. Our work on these revised disclosures is in progress and we will provide a verbal update to the Audit, Governance and Standards Committee.

WASTE TREATMENT PLANT PFI

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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	
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 2017/18 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:

- Reviewed the contract to confirm that the Council's 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

Our work is complete and we have no matters to report.

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There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting 2018/19 requirements.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	■

Risk description

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. 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 had not been disclosed; and
- Undertook Companies House searches for potential undisclosed interests.

Results

Our work is complete and we have no matters to report.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (IFRS 9)

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There is a risk that financial instruments are not classified and measured in accordance with IFRS9

Significant risk	
Normal risk	■
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended.

The Council will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements. This will need to include both the Council and component entities in the Group financial statements with particular focus on those components who report under UK GAAP, rather than IFRS, as this new accounting standard has not yet been adopted into UK GAAP. There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the impact of the new classification of financial instruments in accordance with the guidance on both the Council and the component bodies in the Group; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

Results

Our work on IFRS 9 remains in progress. We will provide a verbal update to the Audit, Governance and Standards Committee.

REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

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There is a risk that financial instruments are not classified and measured in accordance with IFRS9

Significant risk	
Normal risk	■
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised.

CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue.

The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements. This will need to include both the Council and component entities in the Group financial statements with particular focus on those components who report under UK GAAP, rather than IFRS, as this new accounting standard has not yet been adopted into UK GAAP. There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the impact of the new '5-step model' on revenue streams on both the Council and the component bodies in the Group; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

Results

Our work on IFRS 15 remains in progress. We will provide a verbal update to the Audit, Governance and Standards Committee.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst management 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. Our audit procedures did not identify any fraud. 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 Plan on 25 March 2019.

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.

Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

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 any matters in connection with related parties.

ADJUSTED AUDIT DIFFERENCES: SUMMARY

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There were two audit differences identified by our audit work that were adjusted by management. This increased the draft deficit on the provision of services and decreased net assets £22.4 million.

There was no impact on the general fund balance.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

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	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Deficit on the provision of services before adjustments	242,211				
1: Revised IAS 19 entries following McCloud judgement					
DR Cost of services – continuing operations	22,340	22,340			
CR Net pension liability					(22,340)
DR Pension Reserve				22,340	
CR Movement in reserves (general fund)*			(22,340)		
2: Incorrect treatment of debtor invoices raised in advance					
DR Receipts in advance				3,034	
CR Debtors					(3,034)
Total adjusted audit differences	22,340	22,340	-	3,034	(25,374)
Adjusted deficit on the provision of services	264,551				

* This line reflects the reversal of the revised IAS 19 entry out of the general fund. For presentational purposes it has been shown above as a credit in the Income and Expenditure column. However, It does not affect the deficit on the provision of services and is therefore not shown in the 'Total adjusted audit differences' line.

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

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

Subject to the completion of outstanding matters shown on page 39 and other matters highlighted elsewhere in this report, the following adjusted disclosure matters were noted:

- The timings and amounts of property, plant and equipment revaluations disclosed in Note 14.5 Revaluations were analysed incorrectly. This did not affect the total cost or valuation disclosed.
- Management have made a number of other minor changes to disclosures to improve the clarity of the information presented and ensure compliance with the CIPFA Code.

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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.	Our work on the narrative report is in progress. We will provide a verbal update to the Audit, Governance and Standards Committee.
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.	Our work on the Annual Governance Statement remains in progress. We will provide a verbal update to the Audit, Governance and Standards Committee.

WHOLE OF GOVERNMENT ACCOUNTS

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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 28 June 2019. The Council did not meet 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. We are planning to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's 13 September 2019 deadline.

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OVERVIEW

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 Plan we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	No
Waste treatment services	Informed decision making	Significant	No

SUSTAINABLE FINANCES

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The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some 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	

Risk description

The Organisation Plan 2019/20, approved by the Council in February 2019, includes a Medium Term Resources Strategy (MTRS) to 2021/22 that forecasts further reductions in central Government funding, inflationary pressures and increasing demand for social care services.

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

The 2019/20 budget includes £60 million of identified savings and efficiencies. 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, development of the Council's fostering service and seeking more cost effective ways of supporting children with disabilities.

However, the MTRS indicated that the Council still needs to find a further £100 million of savings over the medium term to 2021/22, of which £72 million will need to be achieved in 2020/21. The March 2019 Budget Outlook reviewed by the corporate leadership team forecast that this savings requirement would escalate to a cumulative £148 million in 2023/24.

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 2018/19 and progress against the 2019/20 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;
- 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; and
- Carried out benchmarking to compare the Council's financial performance against other county councils, taking account of relevant contextual information, in informing our assessment of the strength of the Council's financial management arrangements.

SUSTAINABLE FINANCES 1

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

Overall conclusion

We are satisfied the Council has adequate arrangements for budget 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 and is on track to deliver its required savings in 2019/20.

The MTRS reflects known savings and cost pressures and the key assumptions are reasonable.

The MTRS and the Council's Finance Outlook towards the end of 2018/19 indicated cumulative budget gaps of £148 million by the end of 2023/24. Based on this position, if no further savings are made in 2020/21 to 2023/24, above those already identified and assumed in the MTRS, the Council's general fund balance, reserve for future capital funding and other unrestricted earmarked reserves would be fully depleted.

However, the Council has a comprehensive business planning process in place and significant work has been done to identify further savings of £116 million over the four year period to 2023/24, with £64.2 million identified for 2020/21. This compares to a average of £59 million in 2018/19 and 2019/20.

This has reduced the budget gap to a cumulative £54.3 million by 2023/24, of which £27.3 million relates to 2020/21. The Council has sufficient unrestricted earmarked reserves to cover this shortfall, if necessary.

Achieving the identified savings and closing the remaining budget gaps will be challenging and will continue to require strong leadership and action by the Council, particularly if the Council wants to maintain its general fund and unrestricted earmarked reserves balances at current levels over the medium term. However, we are satisfied that the Council has adequate arrangements in place to remain financially sustainable in the medium term.

Detailed results

Financial outturn for 2018/19

The Council delivered £64.5 million of savings in the year, which exceeded the savings target of £58.5 million. Of these, £45 million were delivered by the original planned method, £6 million was over-delivered and a further £13.5 million was delivered via mitigation actions.

Overall the Council achieved an underspend of £8.9 million against its final estimate for the year. This related to:

- £4 million emergency contingency fund not used due to mild winter conditions;
- £4.1 million higher income from government grants, council tax and non-domestic rates;
- £0.8 million underspend on interest and financing costs due to lower than planned borrowing;
- Net underspend by services of £7.9 million, largely in health and adult social care, which was transferred into carry forward earmarked reserves for unspent budgets.

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

£6.5 million of the net underspend was transferred into the transformation reserve and £2.4 million into the general fund.

As a result, the Council closed the year with a general fund balance of £56.6 million, an increase of £3 million over the prior year balance. This is slightly in excess of the 6% minimum level recommended by the Section 151 officer and sufficient to cover 22 days of operational expenditure.

Earmarked general reserves increased by £10 million in the year, to £294.9 million at 31 March 2019. 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 2019 is £207.1 million. In addition, the Council has £12.1 million earmarked for funding future capital investment. The remaining £75.7 million of unrestricted earmarked reserves at 31 March 2019 will provide a cushion against future risks and support transformational change to assist the Council in achieving efficiencies.

Progress against the 2019/20 budget

The 2019/20 budget includes a savings requirement of £59.6 million for the year, which management has rated as follows:

- £36 million as 'Green' as they are on track to be delivered;
- £10.9 million as 'Amber' as plans for some savings initiatives are still being developed and additional resources have been assigned to address the remaining gap;
- £8 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
- £4.7 million as 'Black' as they are not considered to be deliverable.

Based on the underlying processes in place to achieve these savings, management is currently forecasting that it will deliver £54.8 million in 2019/20 and mitigations have been identified for £4.5 million of the undeliverable savings, leaving a relatively minor gap of £0.2 million.

We have noted that management was prudent in its delivery risk assessments during 2018/19, by only reporting savings as 'Green' when they had been fully delivered. In January 2019 it was reporting 'Green' savings of £46 million for 2018/19, which increased to £52.7 million in February 2019 and then to £64.4 million by the end of the year. This provides us with further assurance that the Council will achieve its savings target in 2019/20.

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

MTRS assumptions

The MTRS to 2021/22, which was approved by Cabinet in February 2019, includes the following key assumptions, which are considered reasonable:

- No revenue support grant from 2020/21 (per the Government's four year settlement ending in 2019/20);
- No increase in council tax from 2020/21 but a 1% increase in tax base, based on historic trends;
- Growth of 1% in business rates, based on historic trends and an inflationary uplift; and
- 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, from 7% of the net budget in 2018/19 to an estimated 9.1% by 2021/22, as the Council plans to invest considerable sums through the capital programme over the next three years, some of which will help to deliver revenue savings; and
- Savings and commercial income generation of £16 million in 2020/21 and £20 million in 2021/22, which are largely identified.

The MTRS assumes that the general fund balance will remain unchanged throughout the period, which is now £56.6 million. Unrestricted earmarked reserves are expected to reduce by £6 million in 2019/20 but then to increase by £1.9 million in 2020/21 and by £6.8 million in 2021/22. Based on the balance of £75.7 million at 31 March 2019, these reserves are therefore expected to increase to £78.4 million by 31 March 2022.

After taking the above into account, the MTRS indicated a budget gap of £72 million in 2020/21, which escalates to a cumulative £100 million in 2021/22, £124 million in 2022/23 and £148 million in 2023/24.

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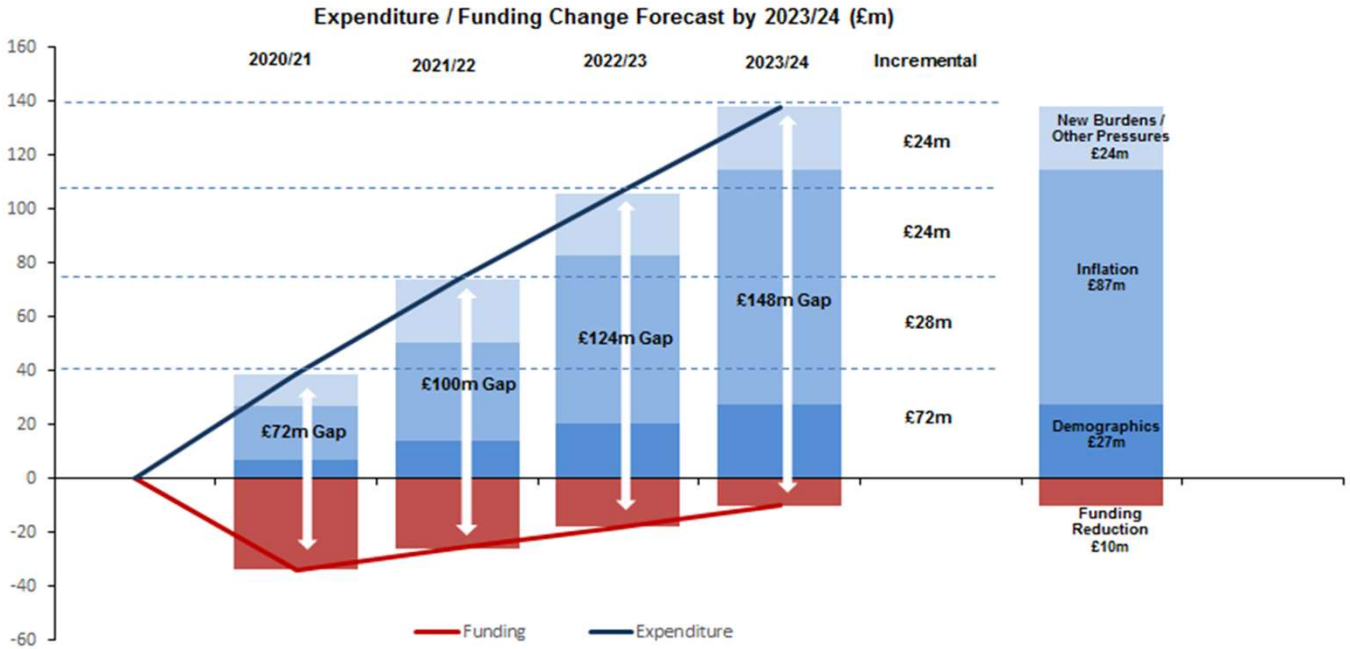
The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some savings may not be delivered.

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

The following chart has been extracted from the Council's MTRS:



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

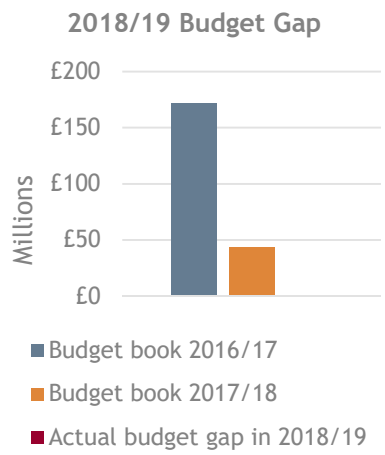
Significant risk	■
Normal risk	
Sustainable resource deployment	■
Informed decision making	
Working with partners and other third parties	
Significant control findings	

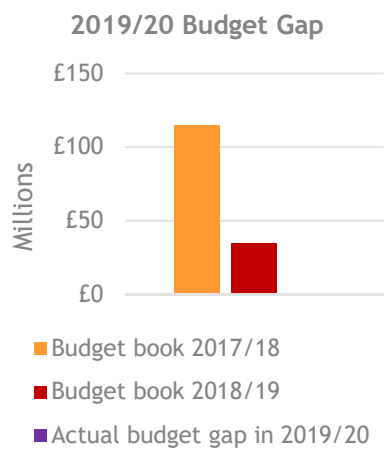
The business planning process that has been in place since January 2019 has resulted in additional identified savings that have reduced the medium term budget gap to a cumulative £54.3 million by 2023/24, of which £27.3 million relates to 2020/21.

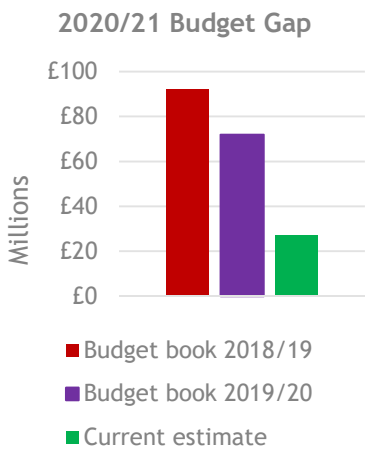
The Council has sufficient unrestricted earmarked reserves to cover this shortfall, if necessary.

However, our review of the budget gaps reported in the Council's Budget Books in recent years shows how they have decreased as time progresses:

- In 2016/17, the Council was reporting budget gaps of £101 million for 2017/18 and £172 million for 2018/19;
- In 2017/18, the Council was reporting budget gaps of £44 million for 2018/19 and £115 million for 2019/20;
- In 2018/19, the Council was reporting budget gaps of £35 million for 2019/20 and £92 million for 2020/21; and
- In 2019/20, the Council was reporting a budget gap of £72 million for 2020/21, which has now reduced to £27.3 million following the most recent business planning process.







This trend, combined with the fact that the Council has a robust business planning process in place (covered further on the following page), provides assurance that the current medium term budget gaps will reduce as planning continues.

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The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some 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	

Arrangements to identify savings

The Council is currently going through phase 2 of its a four year business planning process to identify savings to close the budget gaps in the MTRS.

A business planning document produced by the Council set out the process as follows:

- Phase 1 'Insight and Strategic Intent', ran from January to May 2019, with the aim of ensuring clarity around medium-term political direction and priorities, including areas for relative de-prioritisation and a strategic steer on what can be delivered by greater productivity/efficiency/income generation and what will be driven through transformation and policy change. That strategic direction was then translated into high level priorities at a functional level within a set financial envelope, to ensure that the Council's priorities are aligned to the available resources.
- Phase 2 'Development', has run from February to July 2019, with functions developing their detailed business plans to align with the strategic intent developed in the first phase. This process allows for business plans to set out change and transformation priorities and credible measures to deliver a balanced budget and MTRS.

We understand that a significant amount of work has been completed to identify savings to close the budget gap and that draft 4 year business plans are being presented to the corporate leadership team and members by the end of July 2019. As noted on the previous page, the process has resulted in additional identified savings that have reduced the medium term budget gaps.

Total identified savings now total £64.2 million for 2020/21 and escalate to a cumulative £116 million in 2023/24.

The target for 2020/21 is above the average level of savings of £59 million achieved or expected to be achieved in 2018/19 and 2019/20. Whilst it will be challenging and continue 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.

Internal Audit carried out an audit of 'Identifying Deliverable and Desirable Savings' in 2018/19. We have not yet had sight of this report as it has not yet been approved by officers, however we understand from our liaison with Internal Audit that it has been awarded an 'Adequate' assurance level. This means that there is basically a sound system of control, although there are some areas of moderate weakness which may put the system/process objectives at risk.

We also reviewed evidence to support a sample of identified savings schemes in 2019/20, and are satisfied that there are adequate plans and monitoring arrangements in place to deliver the savings.

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The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some 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	

Benchmarking

The Council has carried out various benchmarking exercises to compare its operational and financial performance against other county councils. A presentation provided to members in November 2018 indicated very high unit cost spend in Adult Social Care and Highways and Transport, and very low unit cost spend in Childrens' Social Care, compared to other county councils. However, it is clear from the presentation that the reasons for the Council's position have been explored, are well understood and are due to demographic and other contextual issues.

We have also compared the Council's financial position at 31 March 2019 to other county councils. This indicates that its level of general fund and earmarked reserves as a percentage of gross expenditure (per the pre-audit financial statements for all county councils) is slightly above average, at 14% compared to an average of 13% across all county councils.

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WASTE TREATMENT SERVICES

There is a risk of insufficient arrangements in place to plan for the future of waste treatment if decisions are put on hold pending the outcome of legal proceedings.

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

Risk description

As noted under the financial statements audit risks above, the Council and operator of a waste treatment plant under a PFI arrangement are currently utilising contractual and dispute mechanisms to resolve issues which have occurred during the commissioning phase. Both parties are presently engaged in the litigation process, with the court trial commencing in April 2019.

There is a risk that the Council may not be adequately planning for the future of waste treatment in the county, including making informed decisions based on expected or possible scenarios, as it awaits the outcome of the court trial.

Work performed

We carried out the following planned audit procedures:

- Through discussion with relevant officers, obtained an understanding of planning arrangements in place regarding waste treatment services;
- Assessed whether appropriate scenario planning has been carried out to support informed decision making.

Results

From the work carried out, we have no specific concerns regarding informed decision making in this area.

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Opinion on financial statements

Subject to completion of the outstanding matters on page 39, we anticipate issuing an unmodified opinion on the Group and the Council financial statements.

There are no matters that we wish to draw attention to by way of 'emphasis of matter'.

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

Subject to completion of our review of the Annual Governance Statement, we have no matters to report.

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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 2019.

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

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 Council and the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit that they 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.

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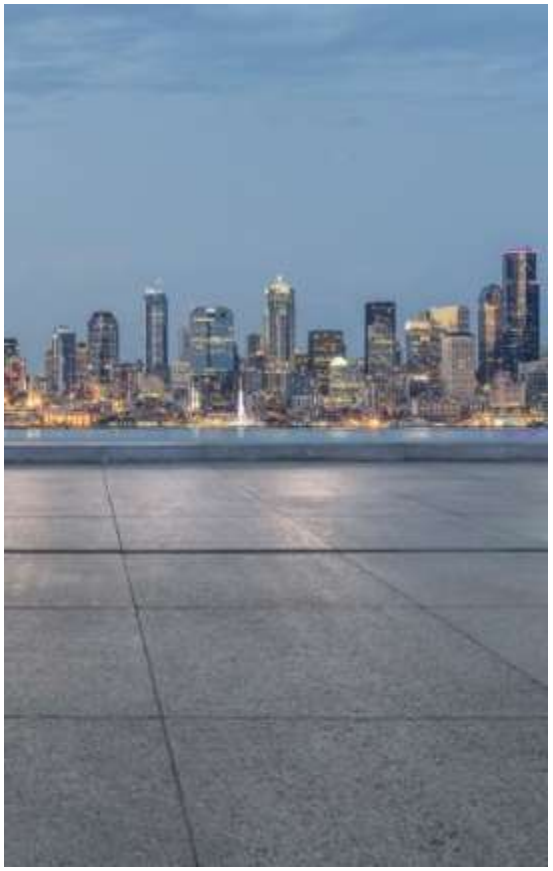
FEES

Fees summary	2018/19 Actual £	2018/19 Planned £
Audit fee		
• Code audit fee: Consolidated Group and Council financial statements and use of resources	126,265	126,265
Non-audit assurance services		
Fees for reporting on government grants:		
• Teachers' pensions return	TBC	TBC
Fees for other non-audit services		
Total fees	TBC	TBC



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RESPONSIBILITIES AND REPORTING

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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 consolidation Group 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 has 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.

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ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	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.

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COMMUNICATION AND REPORTS ISSUED

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 Plan	25 March 2019	Audit, Governance and Standards Committee
Audit Completion Report	29 July 2019	Audit, Governance and Standards Committee
Annual Audit Letter	16 September 2019	Audit, Governance and Standards Committee

OUTSTANDING MATTERS

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

- We have not fully concluded on our work yet, although the detailed procedures are in progress. We have highlighted specific risk areas where work is in progress elsewhere in this report, including:
  - Journals and accounting estimates
  - Grants recognised as revenue
  - Valuation of property, plant and equipment and investment properties
  - Pension liability valuation
  - IFRS 9 and IFRS 15
  - Narrative report and annual governance statement

Other sections where we are yet to commence our audit procedures are as follows:

  - Pooled budgets
  - Expenditure and Funding Analysis
  - Cash flow statement
  - Group consolidation
  - Going concern
  - Contingencies and commitments
- Manager, partner and quality control reviews and clearance of review points
- Clearance of technical review
- Subsequent events review
- Management letter of representation, as attached in Appendix E to be approved and signed

AUDIT REPORT

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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 2019 which comprise the Council and group Comprehensive Income and Expenditure Statement Council, the Council and group Movement in Reserves Statements, the Council and group Balance Sheets and 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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; 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 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, Corporate and Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Executive Director, Corporate and Customer Services 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.

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Other information

The Executive Director, Corporate and Customer Services 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 November 2017, 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 2019.

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 misleading or inconsistent with other information that is forthcoming from the audit;
- 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.

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Responsibilities of the Executive Director, Corporate and Customer Services and the Council

As explained more fully in the Statement of the Executive Director, Corporate and Customer Services Responsibilities, the Executive Director, Corporate and Customer Services 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, Corporate and Customer Services 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.

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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.

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

For and on behalf of BDO LLP, Appointed Auditor

Ipswich, UK

XX July 2019

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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 Financial Reporting Council'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

Letter of representation

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[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 2019

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 2019 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 Corporate and Customer Services 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 2019 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

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.

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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

You have not advised us of any unadjusted misstatements in the financial statements or other information.

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.

There were no loans, transactions or arrangements between any Group entity and the Council's 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 3.4%
- CPI increase 2.4%
- Salary increase 3.9%
- Pension increase 2.4%
- Discount rate 2.4%
- Mortality: Current pensioners - male 21.3 years and female 23.6 years / future pensioners - male 22.9 years and female 25.4 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.

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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

Margaret Lee

Executive Director Corporate and Customer Services

[date]

Councillor Terry Cutmore

Chair of the Audit, Governance and Standards Committee

[date]

FOR MORE INFORMATION:

David Eagles

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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 organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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