

# Essex County Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

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

The “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Essex County Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's and Pension Fund's: ▶ Financial statements	Unqualified – the financial statements gave a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2017 and of expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.  We also provided a 'consistent with' opinion regarding the consistency of the Pension Fund financial statements published in Essex County Council financial statements with those financial statements published in the Essex Pension Fund Annual Report and Accounts 2016/17 document.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you had put in place proper arrangements to secure value for money in your use of resources, except for sustainable resource deployment arising from pressure from the economic downturn.
Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Reports were presented to the Audit Committee on 18 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 18 October 2017, following the completion of our work regarding the Whole of Government Accounts return and the Pension Fund Annual Report.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Janet Dawson  
Partner  
For and on behalf of Ernst & Young LLP

Purpose



## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council and Pension Fund.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Reports to the 18 September 2017 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council and Pension Fund.





# Responsibilities



## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 27 March 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2016/17 financial statements, including the pension fund; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The background is a blurred office scene. In the foreground, there are several clear glass tumblers filled with water on a wooden desk. Behind them, a laptop screen displays a financial chart. To the left, a pen and some papers are visible. The overall lighting is bright and natural, suggesting a window in the background.

# Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Council's and Pension Fund's Statement of Accounts are important tools for the Council and Fund to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued unqualified audit reports on 22 September 2017.

Our detailed findings were reported to the 18 September 2017 Audit Committee.

The key issues identified as part of our audits were as follows:

Significant Risk: Essex County Council and the Pension Fund	Conclusion
<p>Management override of controls</p> <p>As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>We assessed journal amendments, accounting estimates and unusual transactions as the area's most open to manipulation.</p> <p>Linking to our risk of fraud in revenue and expenditure recognition below (County Council only) we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme. We have also considered the completeness of liabilities and valuation of estimated liabilities for any management bias.</p>	<p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Authority's or Fund's normal course of business.</p> <p>No other issues were identified.</p>



Significant Risk: Essex County Council and the Pension Fund	Conclusion
<p><b>Implementation of New General Ledger System</b></p> <p>The new Oracle financial services system was implemented in November 2016 as part of the transforming corporate systems (TCS) project. The change impacts the financial statements as all transactions are recorded in the general ledger system.</p> <p>We were aware that initially there were teething issues with the system, and particularly producing reports for which financial performance could be monitored. The issues around producing system reports did not impact adversely on the Council's ability to accurately forecast the outturn position before year end, and these issues were subsequently resolved. The resolution of the initial issues also enabled the financial statements to be prepared in advance of the deadlines.</p> <p>However, the risk remained that any errors in the transfer or input of data or in the calculations performed by the new system could result in a material misstatement in the financial statements.</p>	<p>Our IT specialists identified one significant issue as part of their work. This related to the segregation of duties access within the new Oracle system not being performed. This had already been identified by ECC and internal audit are working to resolve the issue. This did not impact the audit strategy as we took a fully substantive approach.</p> <p>The finance team identified an issue with the new creditor commitment sub-ledger which meant the year-end balance of £21.8 million did not have a supporting audit trail. We therefore performed additional audit procedures and gained assurance over this balance.</p> <p>We completed our planned procedures in relation to this risk. We identified one issue around segregation of duties but this has been followed up by ECC and did not impact our audit strategy.</p>
Significant Risk: Essex County Council	Conclusion
<p><b>Risk of fraud in revenue recognition</b></p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.</p> <p>The Council is more focussed on its financial position over the medium term and therefore we rebutted this risk for the Council's standard income and expenditure streams except for the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme.</p> <p>We also considered the completeness of liabilities and valuation of estimated liabilities for any management bias.</p>	<p>Our testing did not identify any material misstatements from revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.</p>

Significant Risk: Essex County Council	Conclusion
<p><b>Accounting for Property, Plant and Equipment</b></p> <p>Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a significant audit risk PPE may be under/overstated or the associated accounting entries incorrectly posted.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>	<p>Our testing did not identify any material misstatements in property, plant and equipment valuation and disclosure in the 2016/17 statement of accounts. We consulted with EY's internal valuation experts to assess the reasonableness of the approach taken in the valuation of the Council's significant asset base. Our experts concluded their work and there were no issues arising.</p>
Significant Risk: Essex County Council	Conclusion
<p><b>Pensions Valuations and Disclosures</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a significant risk.</p>	<p>Both the NAO's consulting actuary and EY's internal specialists identified that the assumptions used by the pension fund actuary were considered to be at the optimistic end of the range for the discount rate and RPI inflation. Further consideration of the impact of these specific assumptions was therefore considered by EY's internal pension's specialist. This work concluded that the actuary's RPI assumption of 3.6%pa is slightly prudent; however, the scope in the discount rate assumption used by the actuary should ensure that the overall position is reasonable.</p> <p>We did undertake additional procedures to assess the reasonableness of the actuary's assumptions over the discount rate and RPI. These additional procedures did not highlight any significant issues in the current year. In the opinion NAO's consulting actuary and EY's internal specialists the methodologies used to derive the discount rate and RPI inflation assumptions did not take adequate account of the specific duration of the scheme's liabilities.</p>

Significant Risk: Essex County Council	Conclusion
<p><b>Waste Treatment Plant PFI</b></p> <p>The Council entered into a material PFI contract in May 2012 for the design, construction and operation of a waste treatment plant in Basildon, Essex. The physical construction work was completed during 2014/15.</p> <p>However, the relevant acceptance tests are still to be achieved and therefore the Facility remains in the commissioning phase. The Council has been involved in ongoing discussions with the operator UBB Waste (Essex) Limited regarding technical matters that have arisen during the commissioning phase and the Parties are utilising the appropriate contractual mechanisms to resolve these issues.</p> <p>Matters where no agreement has been reached have been referred to adjudication to determine an outcome. As at 31 March 2017, both parties have made detailed submissions on some issues to an adjudicator who is considering these issues and therefore at this time the outcome remains uncertain.</p> <p>There is a risk that the plant may not reach the required performance levels to enable the costs to be capitalised.</p>	<p>We completed our planned procedures in relation to this risk and we agreed with the Council's view that the Waste treatment plant PFI should remain off balance sheet for 2016/17.</p> <p>We reviewed relevant correspondence provided to us and understood the basis of the matters which have been referred to the adjudicator. The Council continued to disclose both a contingent liability and a post balance sheet event in respect of this PFI scheme in 2016/17 and the basis for this judgement was clear. Given this is subject to a high degree of uncertainty; we acknowledged that a contingent liability disclosure was appropriate.</p> <p>We were satisfied that the revised contingency disclosure in respect of the Waste PFI meets the requirements of IAS 37.</p>
Significant Risk: Essex Pension Fund	Conclusion
<p><b>Valuation of unquoted pooled investments and direct property investments</b></p> <p>The Fund's investments include unquoted pooled investment vehicles (such as private equity, infrastructure, timber and illiquid debt) and direct property investments.</p> <p>Judgements are taken when valuing those investments whose prices are not publically available. The material nature of investments means that any error in judgement could result in a material valuation error.</p> <p>Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.</p>	<p>We concluded that we could rely on the service organisations and did not identify a need for our internal valuation specialists to support our work in this area.</p> <p>We agreed the service organisations valuations to the investment valuations reported in the financial statements.</p>

As these investments are more complex to value, we have identified the Fund's investments in property and unquoted pooled investment vehicles as a significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.

Other audit issues: Essex County Council

Conclusion

Expenditure and funding analysis

Amendments were made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates and reflects the Council's internal financial reporting structure.

This change in the Code has required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives required audit review which was performed in April 2017.

We concluded from our audit work in this area that the Council implemented the 'telling the story' requirements of the Code to an excellent standard. We were not required to propose any disclosure amendments and there were no issues that we needed to report to Members in this area.



## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>Essex County Council:</p> <p>We determined materiality to be £20 million for both the single entity and Group. The basis of our assessment of materiality remained consistent with prior years at 1% of gross expenditure.</p> <p>We consider expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>Essex Pension Fund:</p> <p>We determined materiality to be £60.3 million, which is 1% of net assets.</p> <p>We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund. The basis of our assessment of materiality has remained consistent with prior years</p>
Reporting threshold	<p>Essex County Council:</p> <p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of 5% of materiality; being £1 million for both single entity and group reporting.</p> <p>Essex Pension Fund:</p> <p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of 5% of materiality; being £3 million.</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. As these disclosures are considered to be of interest to users of the accounts we adopted judgement in ensuring that we tested the disclosures in sufficient detail to ensure they are correctly disclosed. In particular we confirmed the figures for senior officer remuneration in full.
- Related party transactions. The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We therefore considered the nature of the relationship in applying materiality.

- Councillors' allowances. As these disclosures are considered to be of interest to users of the accounts we adopted judgement in ensuring that we tested the disclosures in sufficient detail to ensure they were correctly disclosed.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

## Summary of audit differences

Essex County Council:

We did not identify any audit differences in the draft financial statements which management chose not to adjust.

We did identify a number of minor disclosure adjustments which were corrected by management in the revised financial statements which were approved by the Audit Committee on 18 September 2017.

Essex Pension Fund:

We did not identify any audit differences in the draft financial statements which management chose not to adjust. In addition, we did not identify any disclosure errors.

We would like to bring to your attention that during the year the Pensions Research Accountants Group (PRAG) published a practical guidance for investment disclosures during 2016 in respect of the fair value hierarchy disclosures. Following this guidance, certain 2015/2016 figures have been restated which include the reclassification from level 1 to level 2 of the unit linked assurance policies and derivative contracts. In addition, pooled property unit trusts have also been restated from level 2 to level 3 as a result of IFRS and SORP guidelines following evolving industry practice. The Fund made these amendments within the draft financial statements.



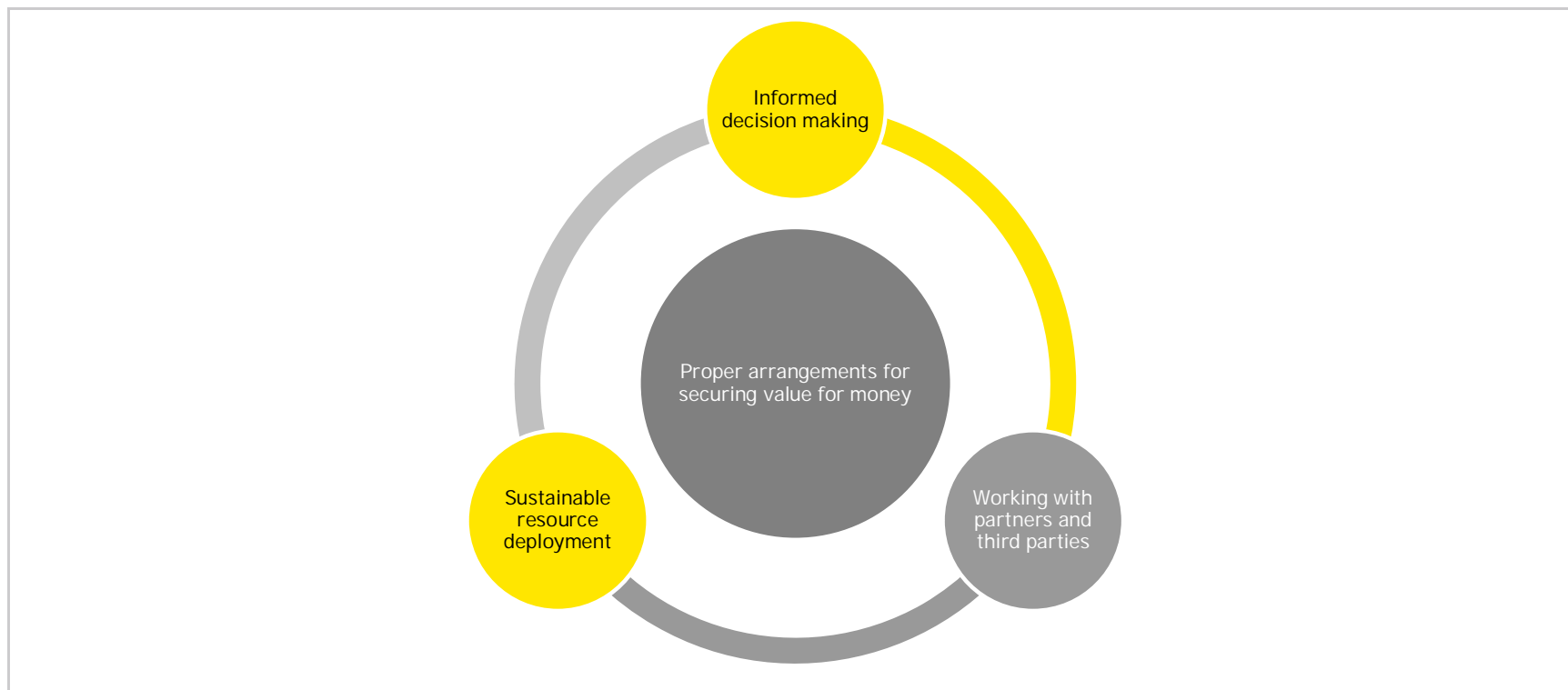
Value for Money

## Value for Money

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

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

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





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

In our value for money conclusion issued on 22 September 2017, we concluded that you had put in place proper arrangements to secure value for money in your use of resources, except for sustainable resource deployment arising from pressure from the economic downturn.

Significant Risk	Conclusion
<p>Sustainable resource deployment: Pressure from Economic Downturn.</p> <p>To date the Council has responded well to the financial pressure resulting from the continuing economic downturn.</p> <p>However, the Council continues to face significant financial challenges over the next three to four years. Whilst the Council is able to present a balanced budget for 2017/18, this does assume full delivery of savings. At the time of writing our audit plan there was a forecasted underlying budget gap of £44m in 2018/19 increasing to £115m in 2019-20. The current restructuring taking place across the organisation is designed to support the delivery of some savings however may increase the risk of that delivery as changes to roles and responsibilities take place in the coming year.</p> <p>Last year, in recognition of the financial challenge, we provided an except for conclusion on the Authority's arrangements for securing financial resilience, and for challenging how it secures economy, efficiency and effectiveness. Given the scale of the savings required, there is a risk that savings plan to bridge the gap is not robust and/or achievable.</p>	<p>Clearly the scale of savings and service transformation to be delivered by the Council over the medium term are significant. The Council currently has a good level of un-earmarked general fund reserves (£55.3 million at 31 March 2017). These provide the Council with the flexibility to manage its financial position over the short-to-medium term, and reduce the risk that an unexpected overspend, or unexpected one-off item of expenditure, has a detrimental impact on the Council's financial standing. The Council currently intends to maintain the General Fund balance at its current level. The Council also has in place substantial levels of earmarked reserves (£279.5 million at 31 March 2017), although some of these are for restricted use. The existence of these reserves provides further evidence of the Council's prudent approach to financial management. However, unless the budget gap forecast in the Medium Term Financial Strategy is closed the Authority would have almost completely exhausted its usable revenue reserves by the end of 2019/20. Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Council's history of delivery did not identify any significant matters. In our view, despite the progress of a significant reorganisation project and implementation of a new business planning organisational strategy, the Authority had not been able to make sufficient progress in identifying the savings required to demonstrate its ability to secure a stable financial position over the medium term. The Council had reduced the budget gap to £26m in 2018/19 and £62m in 2019/20 at the point we concluded our audit.</p> <p>We therefore concluded that you had put in place proper arrangements to secure value for money in your use of resources, except for the matter noted above.</p>

Significant Risk	Conclusion
<p><b>Take informed decisions - Waste Treatment Plant – Basildon</b></p> <p>The Council is party to a high value contract regarding the proposed waste treatment plant in Basildon. Construction costs in respect of this plant as at 31 March 2016 were in the region of £107 million (borne by the private sector). To date the Facility has not yet operated at the level required by the contract and as the relevant acceptance tests are still to be achieved, the Facility remains in the commissioning phase. Consequently, the parties are utilising the appropriate contractual mechanisms to resolve the issues that have occurred in the commissioning phase. Matters where no agreement has been reached have been referred to adjudication to determine an outcome. As at 31 March 2017, both parties have made detailed submissions on some issues to an adjudicator who is considering these issues.</p> <p>Given the significant costs to date, this presents a VFM risk should the plant not become fully operational in accordance with the contract.</p>	<p>Our work indicated that ECC had good internal governance arrangements with regard to this project and had established sound external governance arrangements through ongoing engagement with DEFRA, the sponsoring central government department. Through the appointment of external legal, technical and financial advisors the Council ensures a detailed oversight of the project and it is clear that the Council have sought to achieve VFM as part of their procurement as well as contract management processes.</p> <p>There is clear evidence that the Council utilises all available financial and technical information when undertaking performance management procedures and making informed critical decisions regarding the project.</p> <p>ECC continue to be exposed to financial and legal risks resulting from this PFI contract. For a complex organisation like ECC, this is not unusual. With a reducing funding position over the medium term and an increased focus on different ways of working in response, robust management of these risks remains important. During 2017 the Council undertook a deep dive review of the project risk log and mitigating actions with the objective of gaining a better understanding of the risks and the dependencies between.</p> <p>ECC continues to apply robust contract management and monitoring arrangements over this significant contract and through these arrangements ensures it has a comprehensive understanding of all financial, legal and compliance risks it is exposed to.</p>
Significant Risk	Conclusion
<p><b>Work with partners and third parties – Essex Garden Communities</b></p> <p>Over the past eighteen months, the Council, jointly with Colchester Borough Council, Braintree District Council and Tendring District Council have developed proposals for Garden Communities in North Essex.</p> <p>The aim of the Garden Communities approach is to identify an agreed strategic approach to the allocation and distribution of large scale housing led mixed use development, including employment opportunities and infrastructure provision. The Council has sourced</p>	<p>Our work performed demonstrates that the North Essex Garden Communities project between Essex County Council, Braintree District Council, Colchester Borough Council and Tendring District Council is being governed appropriately and that there is a strong working relationship between the parties.</p> <p>The Authorities have responded positively and in a timely manner to the recommendations provided in Lord Kerslake's peer review.</p> <p>Given the early stage of the project we are likely to revisit this issue as the project develops.</p>

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a peer review to be performed by Lord Kerslake. The review will look at the current approach to delivering Garden Communities in North Essex.

As a new and significant arrangement there may be risks relating to the governance and accounting arrangements for the establishment of the project that affect the Council.

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## Other Reporting Issues



## Other Reporting Issues

### Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2016/17 financial statements from members of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 18 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## Control Themes and Observations

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

As reported in Financial Statements Audit section above, our IT specialists performed a high level overview of the controls and data migration in the new general ledger system. We identified one significant issue as part of this work. This related to the segregation of duties access within the new Oracle system not being performed. This had already been identified by ECC and internal audit are working to resolve the issue. This has not impacted the audit strategy as we are taking a fully substantive approach.

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

Appendix A

## Audit Fees



## Appendix A      Audit Fees

We confirm that we have undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Essex County Council:			
Total Audit Fee – Code work (see note 1)	207,981	163,981	178,981
Total audit fee – Non code work (see note 2)	TBC	N/A	13,250
Essex Pension Fund:			
Total Audit Fee – Code work	31,266	31,266	31,266
Total audit fee – Non code work (see note 3)	5,500	N/A	Nil

Note 1: Our actual fee is higher than the scale fee set by the Public Sector Audit Appointments (PSAA Ltd) due to additional work required relating to the implementation of the new Oracle financial services system which went live in November 2016 (£24,000 agreed with Executive Director for Corporate and Customer Services); and a number of issues encountered during the audit, the majority of which were related to issues arising from the implementation of the new General Ledger system. These additional fees are subject to agreement with the Executive Director for Corporate and Customer Services and the PSAA.

Note 2: The fee for non-audit work will be discussed with management and reported to the Audit Committee in subsequent reporting once the scope of work has been agreed for 2016/17. This work relates to the agreed upon procedures certification arrangements for the Teachers' Pension grant return.

Note 3: The fee for non-audit work relates to the procedures we are requested to undertake by auditors for scheduled bodies for the purposes of IAS 19 requirements which is subject to approval by the PSAA.

We will confirm our final fees following the completion of our audit and non-audit work.

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ED None

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