

Essex County Council

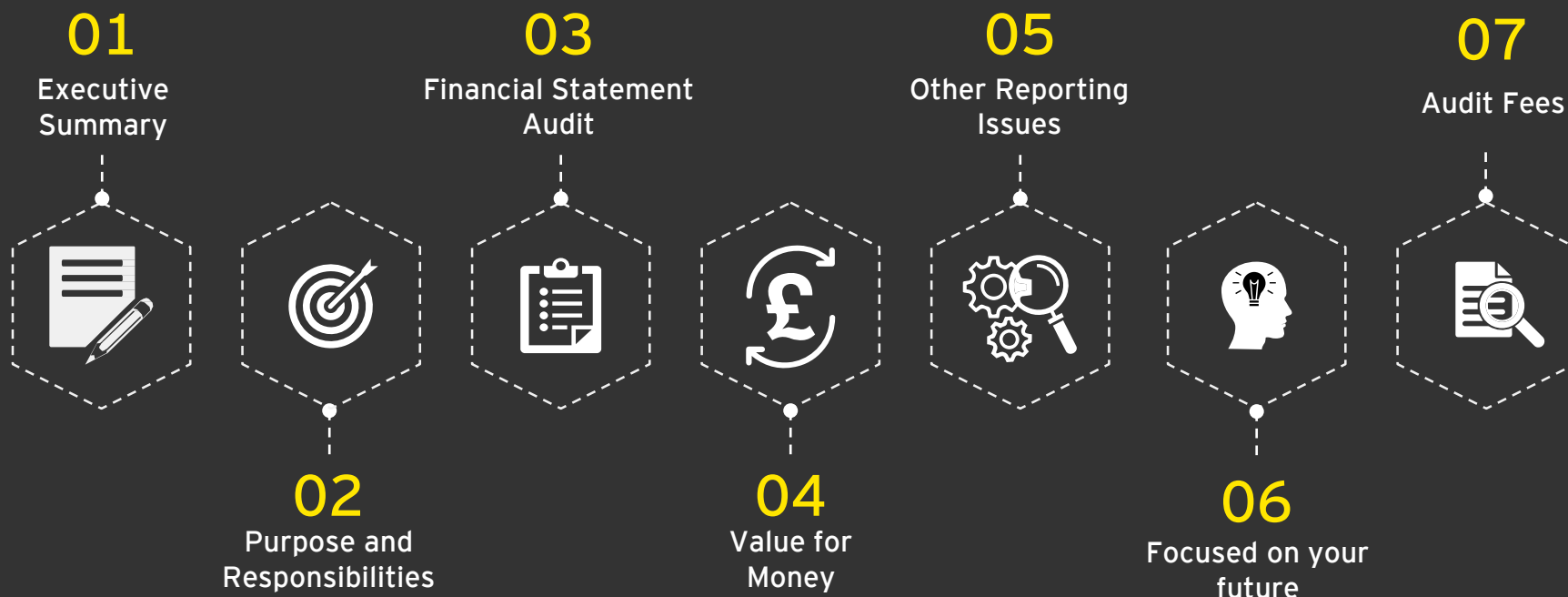
Annual Audit Letter for the year
ended 31 March 2018

August 2018

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
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Contents



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.psa.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.



01 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 2018. 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:	Unqualified - the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2018 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources, except for sustainable resource deployment arising from pressure from the economic environment.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The 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.

Executive Summary (cont'd)

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 Report was presented to the Audit, Governance and Standards Committee on 30 July 2018.
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 21 August 2018.

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

Janet Dawson

Partner
For and on behalf of Ernst & Young LLP
Encl



02 Purpose and Responsibilities

Purpose and Responsibilities

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.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 30 July 2018 Audit, Governance and Standards 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.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 26 March 2018 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 2017/18 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 you 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. 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.



03

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council 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 an unqualified audit report on 31 July 2018. Our detailed findings were reported to the 30 July 2018 Audit, Governance and Standards Committee.

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

Significant Risk (Essex County Council)	Conclusion
<p>Risk of Fraud in Revenue and Expenditure Recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.</p>	<p>We focused on:</p> <ul style="list-style-type: none">▶ Understanding the controls put in place by management relevant to this significant risk.▶ Considering whether or not purchase invoices were being inappropriately classified as capital.▶ Whether management were inappropriately processing journals that transferred amounts from revenue to capital. <p>We performed the following audit procedures:</p> <ul style="list-style-type: none">▶ Documented our understanding of the controls relevant to this significant risk and confirmed they have been appropriately designed.▶ Reviewed and discussed with management any accounting estimates and policies on revenue or expenditure recognition for evidence of bias.▶ Obtained breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature.▶ Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes. <p>Our testing did not identify any material misstatements from revenue and expenditure recognition. We judged all capital additions to be appropriately supported.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk (Essex County Council and Pension Fund)	Conclusion
<p>Risk of Management Override</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 prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>We focused on:</p> <ul style="list-style-type: none">▶ Understanding the risks of fraud and the controls put in place to address those risks by management and how the Audit, Governance and Standards Committee oversees management's processes over fraud.▶ Considering the effectiveness of management's controls designed to address the risk of fraud.▶ Determining an appropriate strategy to address those identified risks of fraud.▶ Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions. <p>We performed the following audit procedures:</p> <ul style="list-style-type: none">▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.▶ Reviewed accounting estimates for evidence of management bias.▶ Evaluated the business rationale for significant unusual transactions. <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 Council or Pension Fund's normal course of business.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk (Essex County Council)	Conclusion
<p>Property, Plant and Equipment Valuation</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 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>We focused on:</p> <ul style="list-style-type: none">▶ The adequacy of the scope of the work performed by the value including their professional capabilities.▶ The reasonableness of the underlying assumptions used by the Council's expert valuer. <p>We performed the following audit procedures:</p> <ul style="list-style-type: none">▶ Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.▶ Sample tested key asset information used by the valuer in performing their valuation.▶ Used our own valuation experts for a sample of valuations completed in year by management's valuation expert.▶ Considered revaluations in year, the basis of valuation of significant assets and any significant changes in use to ensure they remain appropriate if circumstances changed. <p>Our testing did not identify any material misstatements from property, plant and equipment valuation.</p> <p>Overall our audit work did not identify any material issues or concerns with the scope of work or underlying assumptions used by the Council's valuer.</p> <p>Our consideration of the annual cycle of valuations did not identify any issues with the implemented plan or with the movement on assets not revalued in year.</p>



Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk (Essex County Council)	Conclusion
<p>Pension Valuation and Disclosures</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 authorities, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a significant risk.</p>	<p>We focused on:</p> <ul style="list-style-type: none"> ▶ The reasonableness of the underlying assumptions used by the Council's expert - Barnett Waddingham. ▶ Ensuring the information supplied to the actuary in relation to Essex County Council was complete and accurate. ▶ Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Barnett Waddingham. <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> ▶ Assessed the work of the Pension Fund actuary including the estimations and judgements they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19. ▶ Assessed the reasonableness of the estimations and judgements used. <p>We reviewed the assessment of the pension fund actuary by PWC and EY pensions and undertook the work required with no issues identified.</p> <p>We identified one issue with the estimate of total pension fund assets used by the actuary. Due to the timing of their estimation for total fund assets there was a material difference with the year-end Pension Fund value. This resulted in the year-end report being re-run and an adjustment to the pension asset figure of £41.996 million was made.</p>



Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk (Essex County Council)	Conclusion
<p>Waste Treatment PFI</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 2018 were in the region of £107 million (borne by the private sector). To date the Facility has not yet operated at the level required by the contract and as the relevant acceptance tests are still to be achieved, the Facility remains in the commissioning phase.</p> <p>Consequently, the parties are utilising the appropriate contractual mechanisms to resolve the issues that have occurred in the commissioning phase. Matters where no agreement has been reached, have been referred by both parties for adjudication in accordance with the dispute resolution process under the contract. As at 31 March 2018, both parties have referred a number of contractual disputes to adjudication. Where matters have not been capable of resolution, the Council has commenced proceedings in the Technology & Construction Court, which will include final determination on decisions of the adjudicator, where the decision has been disputed.</p> <p>Both parties are presently engaged in the litigation process with the trial expected to commence in April 2019. Given the significant costs to date and the inherent uncertainty of litigation, there is a risk that the disclosures in the financial statements are materially misstated.</p>	<p>We focused on:</p> <ul style="list-style-type: none"> ▶ The reasonableness of the contingent liability in the accounts rather than the inclusion of a provision. <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> ▶ Reviewed the Council's consideration of whether it should recognise the Waste Treatment Plant and associated PFI liability on its 2017/18 Balance Sheet. ▶ Reviewed the resolution of any agreements reached between parties. ▶ Established whether any provisions or contingent liabilities need to be recognised for any costs associated with potential contractor disputes. <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position in relation to the waste treatment PFI.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk (Pension Fund)	Conclusion
<p>Valuation of Complex Investments (Unquoted and Direct Property Investments)</p> <p>Judgements are taken when valuing those investments whose prices are not publicly 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. Such variations could have a material impact on the financial statements.</p> <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.</p>	<p>We focused on:</p> <ul style="list-style-type: none">▶ The complex valuation methods used for level 3 investments. This includes private equity, infrastructure and property. Total level 3 assets of the Fund at 31 March 2018: £1.2 billion <p>We performed the following audit procedures:</p> <ul style="list-style-type: none">▶ Reviewed the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used;▶ Assessed the competence of management experts; and▶ Performed analytical procedures and checking the valuation output for reasonableness against our own expectations. <p>Our testing did not identify any material misstatements for level 3 year-end investment balances.</p> <p>We did not identify any inappropriate valuation methodologies or judgements being applied.</p> <p>We did not identify any issues with the competence of the management experts used.</p>

Financial Statement Audit (cont'd)

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	Essex County Council We determined planning materiality to be £20m (2016/17 £20m), which is 1% of gross expenditure on provision of services reported in the accounts. We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
	Essex Pension Fund We determined planning materiality to be £130m (2016/17 £60m), which is 2% of the net assets of the scheme available to fund benefits as reported in the accounts. We consider net assets of the scheme to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund. In the prior year we applied a threshold of 1%, meaning that planning materiality was set as £60m. Although the Pension Fund is a public interest entity and a major local authority based on its size, we have considered the overall risk profile and public interest in comparison to other Pension Fund's, and do not consider there to be any heightened risks that would mean we need to adopt a lower level of materiality.
	Reporting threshold
Reporting threshold	Essex County Council We agreed with the Audit, Governance and Standards Committee that we would report to the Committee all audit differences in excess of £1m (2016/17 £1m).
	Essex Pension Fund We agreed with the Audit, Governance and Standards Committee that we would report to the Committee all audit differences in excess of £6.5m (2016/17 £3m).

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.

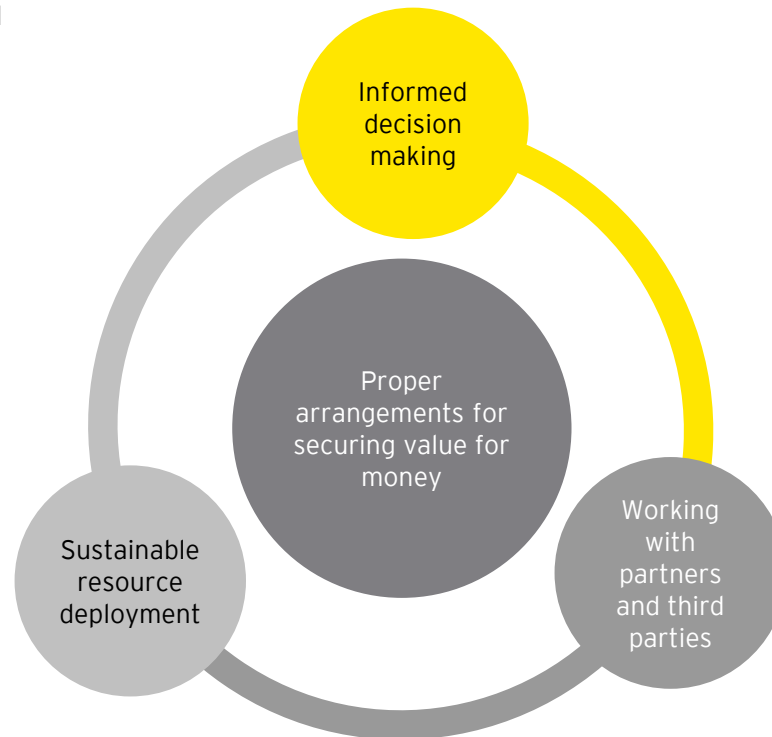


04 Value for Money

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:

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



We identified three significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. In our value for money conclusion issued on 31 July 2018, 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 environment.



Value for Money (cont'd)

The key value for money issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Pressure from Economic Environment</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 2018/19, this does assume full delivery of savings. At the time of writing our audit plan there was a forecasted underlying budget gap of £32m in 2019/20 increasing to £95m in 2020/21. The continuing restructuring taking place across the organisation is designed to support the delivery of some savings however may increase the risk of that delivery as changes to roles and responsibilities take place in the coming year.</p> <p>Last year, in recognition of the financial challenge, we provided an except for conclusion on the Council'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>We undertook the procedures as set out in our audit strategy which focused on:</p> <ul style="list-style-type: none"> ▶ The adequacy of the Council's budget monitoring process, comparing budget to outturn & the robustness of any assumptions used in medium term planning; ▶ The Council's approach to prioritising resources whilst maintaining services; and ▶ The savings plans in place, and assessing the likelihood of whether these plans can provide the Council with the required savings and efficiencies over the medium term. <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 (£55.2 million plus £4 million of emergency contingency at 31 March 2018). 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 (£285 million at 31 March 2018), 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. 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. As at 31 March 2018 the Council had reduced the budget gap to £32m in 2019/20 and £95m in 2020/21, amounts which exceed the usable reserves available to the Council. The Council, in line with previous years, is undertaking a review of budget proposals (savings and income generating opportunities) to bridge the gap. At this stage, the 2018/19 year savings are substantially identified, but not yet finalised. Proposals are in place for 2019/20 and work has been commissioned to identify savings for 2020/21.</p> <p>We therefore concluded that you have put in place proper arrangements to secure value for money in your use of resources, except for the matter noted above.</p>

Value for Money (cont'd)

The key value for money issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Take informed decisions - Waste Treatment Plant - Basildon</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 2018 were in the region of £107 million (borne by the private sector). To date the Facility has not yet operated at the level required by the contract and as the relevant acceptance tests are still to be achieved, the Facility remains in the commissioning phase. Consequently, the parties are utilising the appropriate contractual mechanisms to resolve the issues that have occurred in the commissioning phase. Matters where no agreement has been reached have been referred to adjudication to determine an outcome. As at 31 March 2018, both parties have referred a number of contractual disputes to adjudication. Where matters have not been capable of resolution, the Council has commenced proceedings in the Technology & Construction Court, which will include final determination on decisions of the adjudicator where the decision has been disputed. Both parties are presently engaged in the litigation process with the trial expected to commence in April 2019.</p> <p>Given the significant costs to date, this presents a VFM risk should the plant not become fully operational in accordance with the contract.</p>	<p>Our work in response to the risk included:</p> <p>Review of the PFI business case, including the outline procurement process and value for money assessments; and monitoring developments throughout the year.</p> <p>Our work indicated that ECC does have good internal governance arrangements with regard to this project and has established sound external governance arrangements 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.</p> <p>ECC continues to apply robust contract management and monitoring arrangements over this significant contract and through these arrangements ensures it has a comprehensive understanding of all financial, legal and compliance risks to which it is exposed.</p>

Value for Money (cont'd)

The key value for money issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Commercialisation</p> <p>We identified three main components for which to focus our review of the Council's commercialisation agenda:</p> <ul style="list-style-type: none"> ▶ Garden Communities; ▶ Property Investment Fund; and ▶ Housing Project <p>Authorities are increasingly under scrutiny as a result of investment and commercialisation activities some are undertaking to increase income to meet funding gaps for the provision of services. In 2017/18 MHCLG updated its guidance on the Prudential Code, in response to concerns that authorities were:</p> <ul style="list-style-type: none"> ▶ Taking advantage of lower than market interest rates offered by PWLB to borrow in advance of service need solely to generate profit, which MHCLG consider not to be prudential; and ▶ Entering into profit generating investment schemes that fall outside the responsibilities or skills of the council, such as the purchase of retail parks and shopping centres, or outside the council's area, thereby not for the purpose of regeneration of their area, or both. <p>The effective date per the guidance applies for financial years on or commencing after 1 April 2018. As a result of this 'the Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance'. It is also worth noting that 'nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will need to consider whether any novel transaction is lawful by reference to legislation'.</p>	<p>Our work in response to the risk included:</p> <ul style="list-style-type: none"> ▶ Reviewing the governance arrangements of the projects; ▶ Reviewing the financial impact of these projects and potential risks; ▶ Reviewing any associated laws and regulations; and ▶ Assessing the risk to going concern <p>We did not identify any issues with the progress of the Garden Communities projects. The Housing project is in its infancy and no issues have been identified during our review.</p> <p>The Council approved the creation of a £50 million Property Investment Fund (PIF) in July 2017 to act as an income stream, which was initially planned to be funded through borrowing.</p> <p>The £50 million allocated to the PIF is included in the 2017/18 capital programme, however acquisitions are planned to take place over a 24 month period, which takes the PIF activity past the effective date.</p> <p>In 2017/18 the Council purchased two investment properties, totalling £27 million, outside the Essex region solely for the purposes of generating investment income. However, in line with the updated guidance the Council have funded these properties using capital receipts and capital grants.</p> <p>The larger investment property acquired in the period is a retail park which we have identified as higher risk. We have therefore performed additional audit procedures on the internal rate of return and net yield assumptions applied by the Council in assessing the future incomes and assessed the purchase price paid by the Council. All assumptions applied are within our acceptable range and no specific issues were identified with the purchase price.</p> <p>We also confirmed that the Council, in acknowledging the revised guidance, had made the relevant disclosure in their investment strategy for 2018/19 as per the requirement.</p>



05

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.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 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, Governance and Standards Committee on 30 July 2018. 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

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit identified one control issue to bring to the attention of the Audit, Governance and Standards Committee. The Council were unable to provide a working copy of their operating model for one PFI scheme. As a result of this alternative audit procedures had to be performed. We therefore recommend that the Council source a working copy of the operating model for this PFI scheme.



06

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below. The Council will need to keep these standards under continued focus during 2018/19.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; and ▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets; ▶ Re-measure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p>



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Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background shows the perforated metal of the cabinet drawers.

07 Audit Fees

Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 30 July 2018 Audit Results Report.

County Council	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work (note 1)	173,210	163,981	163,981	207,974
Non-audit work-Teacher's Pension	13,250	13,250	13,250	13,250
Total Audit Fees	186,460	177,231	177,231	221,224

Note 1:

As indicated in our audit planning board report presented to the Audit Governance and Standards Committee on 26 March 2018 the audit risks identified during 2017/18 have resulted in additional audit procedures. We are currently in discussions with the Executive Director for Corporate and Customer Services to agree the additional which is £9,229. This is also subject to approval by the PSAA.

Pension Fund	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work (note 2)	36,766	36,766	31,266	36,766
Total Audit Fees	36,766	36,766	31,266	36,766

Note 2:

As reported in our Audit Planning Board report dated 26 March 2018, we plan to charge an additional fee of £5,500 in 2017/18 to take into account the additional work required to respond to IAS19 assurance requests from scheduled bodies.

This additional fee has been discussed with management and is subject to approval by the PSAA.

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