EXECUTIVE SUMMARY

Background

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council’s financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council’s Annual Governance Statement, Whole of Government Accounts (WGA) submission, whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter, and our grant claims and returns certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
27 October 2015

FINANCIAL STATEMENTS

1. We issued an unqualified true and fair opinion on the financial statements on 29 September 2015.
   
   No material misstatements were identified as a result of our audit work which had an impact on the reported deficit. However we identified a material disclosure matter in relation to the cash flow statement, which was corrected by Management.
   
   There were no unadjusted differences identified by our audit.
   
   We did not identify any significant deficiencies in internal controls during the course of the audit.

USE OF RESOURCES

2. While there is a recognised funding gap in the MTFS, the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS and we were satisfied that, in all significant respects, the Council had put in place proper arrangements to secure economy efficiency and effectiveness in its use of resources for the year ended 31 March 2015.
   
   We issued an unqualified value for money conclusion on 29 September 2015.

OTHER MATTERS (REPORT BY EXCEPTION)

3. We have not exercised our statutory powers and have no matters to report.
   
   We issued the audit certificate to close the audit for the year ended 31 March 2015 on 29 September 2015.

GRANT CLAIMS AND RETURNS CERTIFICATION

4. Our review of grant claims and returns is in progress and the results will be reported upon completion of this work.
Financial performance
The Council reported a deficit on the provision of services of £269,000.

After adjusting for items in the Movement in Reserves Statement, the Council reported a surplus on the General Fund of £2.9 million before transfers to earmarked revenue reserves of £3.3 million, resulting in a net decrease to the General Fund balance of £415,000. The general fund balance as at 31 March 2015 was £7.8 million.

Financial statements
The draft Statement of Accounts was prepared and provided to us for audit on 29 June 2015. A comprehensive file of audit working papers was also provided.

The draft financial statements presented for audit were of a good standard.

No material misstatements were identified as a result of our audit work which had an impact on the reported deficit. However we identified a material disclosure matter in relation to the cash flow statement, which was corrected by management. This was in relation to investment purchases and sales which were shown gross rather than as a net position of movements in investments. This resulted in the purchases of investments being shown as (£87,500,000) and the sale of investments being shown as £87,076,000. The net position of these two figures is £424,000 and is the figure that had been included in the draft financial statements. An amendment was also required to the prior year cash flow to correctly show the gross position of the movement in investments. This amendment had no impact on the reported cash flow for the year.

No unadjusted differences were identified by our audit.

Significant judgements and estimates

Fair value of land and buildings
The calculation of the fair value of land and buildings is subject to a high level of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation. The Council engaged Wilks, Head & Eve as a management expert to provide information on asset values and market trends.

No issues were identified from our testing. We were satisfied that the value of assets reported were materially correct.

Actuarial assumptions
The actuarial assumptions used for pension valuations are subject to a high degree of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation.

Essex County Council Pension Fund engaged Barnett Waddingham as a management expert. We were satisfied that the actuary was independent of the Council, objective and was experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these were not significantly different from those being applied by the actuaries of other local authorities.

Internal controls
We did not identify any significant deficiencies in internal controls during the course of the audit.
Annual Governance Statement
We were satisfied that the Annual Governance Statement was not misleading or inconsistent with other information we were aware of from our audit and complies with Delivering Good Governance in Local Government (CIPFA / SOLACE).

Narrative reporting
Local authorities are required to include an explanatory foreword in the Statement of Accounts to provide an explanation of the financial position and to assist in the interpretation of the financial statements.

We were satisfied that the information given in the explanatory foreword for the financial year for which the financial statements are prepared was consistent with the financial statements.

CIPFA is considering how local authorities can develop their narrative reporting requirements, such as including management commentary or strategic reporting, but has postponed this review until the legislative requirements for the sector are resolved. However, CIPFA’s consultation on ‘Telling the Story’ will propose introducing a reconciliation from the reported outturn in the financial statements to the Council’s management accounts.
Use of Resources

Conclusion

We issued an unqualified value for money conclusion on 29 September 2015.

Our principal work in arriving at our value for money conclusion was comparing the Council’s performance against the requirements specified by the Audit Commission in its guidance:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Financial resilience

The Council has a good track record of achieving their budgets and savings plans and has effective budget monitoring arrangements in place.

The finance team is well resourced and established, with a good level of qualified and experienced staff members in the team. The Corporate Director, Head of Finance and the Financial Services Manager are all prominent members of senior management and there is good interaction between the leadership team and finance which demonstrates a good awareness of both current and future financial issues.

The Council continues to maintain a healthy level of earmarked reserves and balances, with the level of reserves remaining within the minimum level of reserves set by the Council. As at 31 March 2015, the General Fund balance was £7.8m which provides significant headroom over the minimum level of £1.5 million required by the Council’s policy. Earmarked reserves were £11.9m.

The final spend for 2014/15 was £14.7m compared to a budget of £15.2m, with an overall underspend against the budget of £547,000 for the year.

The Medium Term Financial Strategy (MTFS) (as at February 2015) details planned overall use of balances of £485,000 in 2014/15 and £894,000 in 2015/16, although it may become necessary for the Council to further utilise its general reserves if it is unable to achieve the £1.4m savings required to ensure a balanced budgets for 2016/17 to 2018/19. However, any shortfalls are not likely to be significant in light of the £19.8m revenue reserves currently held by the Council and will not result in a breach of the Council’s policy on the minimum level of reserves to be retained of £1.5m. We reviewed the assumptions used in developing the MTFS and found them to be reasonable.

Challenging economy, efficiency, effectiveness

As in previous years, the Council continues to challenge the resource allocation in the next round of budget and medium term financial planning. Members have a clear understanding of the Council’s financial challenges and are being supportive of officers in the budgetary process.

The Council is forward thinking and can demonstrate that it routinely seeks ways to further improve its performance and has a good track record of reviewing and re-negotiating contracts to ensure that they are always getting value for money.

The Council are also continually looking at new ways to increase their investment income, which worked in their favour in year when their pooled investment fund and the purchase of an investment property gave them greater returns than were originally anticipated by c£258,000.

Performance towards key projects underpinning achievement of the Council’s four cross cutting themes is regularly monitored by the Cabinet through the quarterly Performance Management Report where performance is challenged and remedial action is directed if necessary. A review of the Council’s year end Performance Report did not identify any significant matters in terms of value for money.
OTHER MATTERS

We have no other matters to report.

**Whole of Government Accounts**

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure. This was done on 30 September 2015.

**Use of statutory powers**

We have not exercised our statutory powers and have no matters to report.

**Audit certificate**

We issued the audit certificate to close the audit for the year ended 31 March 2015 on 29 September 2015.
GRANT CLAIMS AND CERTIFICATION

4 CERTIFICATION WORK

Our review of grant claims and returns is in progress and the results will be reported upon completion of this work.

Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our audit of the 2013/14 housing benefits subsidy claim found some errors in relation to the following:

- Incorrect application of child tax and working tax credits in the benefit calculation. An extrapolated error was reported in the 2013/14 qualification letter.
- Incorrect classification of some non-HRA properties. This was corrected in the 2013/14 subsidy claim form.
- Incorrect treatment within modified schemes where overpayments were incorrectly off-set against expenditure. This is a known system issue that was reported by Civica to the Council in November 2014. This was corrected in the 2013/14 subsidy claim form.

Our work on the 2014/15 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2015.
APPENDIX

Reports issued
We issued the following reports in respect of the 2014/15 financial year.

<table>
<thead>
<tr>
<th>REPORT</th>
<th>DATE</th>
</tr>
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<tbody>
<tr>
<td>Planning letter</td>
<td>April 2014</td>
</tr>
<tr>
<td>Grant Claims and Returns Certification Report (2013/14)</td>
<td>January 2015</td>
</tr>
<tr>
<td>Audit Plan</td>
<td>March 2015</td>
</tr>
<tr>
<td>Final Audit Report</td>
<td>September 2015</td>
</tr>
<tr>
<td>Annual Audit Letter</td>
<td>October 2015</td>
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</tbody>
</table>

Fees update
We reported our original fee proposals in our Audit Plan issued in March 2015. Our fees to date and any variance to the original proposal are shown below.

<table>
<thead>
<tr>
<th>AUDIT AREA</th>
<th>PROPOSED FEES £</th>
<th>FEES UPDATE £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code audit fee</td>
<td>79,674</td>
<td>79,674</td>
</tr>
<tr>
<td>Certification of housing benefit subsidy claim</td>
<td>18,370</td>
<td>(1) 18,370</td>
</tr>
<tr>
<td>Total fees for audit services</td>
<td>98,044</td>
<td>98,044</td>
</tr>
</tbody>
</table>

Note 1 - Our work on the assurance reviews of the grant claims and other returns for 2014/15 is in progress and we will report the findings from this work and the final fees separately.
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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