



Accountants &
business advisers

Councillor Antony Watts
Audit & Governance Committee Chairman
Epping Forest District Council
Civic Offices
High Street
Epping
Essex
CM16 4BZ

Our ref: 4008927/2011-12/RSB/LJC

2 August 2012

Dear Cllr Watts,

Audit of financial statements for the period ended 31 March 2012

In accordance with International Standard on Auditing 265 - *Communicating deficiencies in internal control to those charged with governance and management* (ISA 265), we are required to report to you significant deficiencies in internal control identified during the course of our audit.

The purpose of our audit is for us to express an opinion on the financial statements. Our audit includes consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters that we have reported to you are limited to those matters that we have identified during the audit and our work is not designed to provide a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

We have now completed our audit of the Council's financial systems and controls and details of the significant matters identified that we would like to bring to your attention can be found in the appendix to this letter. We are required by Auditing Standards to report matters at the earliest opportunity to Those Charged with Governance. The deficiency has been discussed and reported to Management by Internal Audit. The deficiency and related action plan will be incorporated into our final Annual Governance Report to Those Charged with Governance which will be presented to the Audit and Governance Committee on 24 September 2012.

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We would also like to take this opportunity to report to you, under ISA260 - *Communicating with Those Charged with Governance*, the results of our updated risk assessment, performed on receipt of the Council's draft financial statements for audit and with the benefit of our knowledge of developments since we presented our original Audit Plan to you. We identified one additional significant risk from our review of the draft financial statements relating to the depreciation charge. Our firm also amended its internal guidance on the revenue recognition risk after we presented our original Audit Plan and as a result of that we have amended our Audit Plan by recognising revenue recognition risk in relation to fees and charges:

Audit risk identified	Audit response
<p>Revenue recognition – ISA (UK & Ireland) 240 <i>The auditor's responsibilities in relation to fraud in an audit of financial statements</i> requires us to presume there are risks of fraud in revenue recognition, particularly those revenue areas that relate to fees and charges, due to the nature of these transactions</p>	<p>We will perform substantive testing, using an increased sample size, on income relating to fees and charges to confirm that transactions have occurred, that amounts have been accurately recorded and that income (and any associated expenditure) is recorded in the correct accounting period and under the correct heading in the financial statements.</p>
<p>There is a risk of material misstatement of the depreciation charge on Housing Revenue Account properties arising from an unexpected variance from the figure for depreciation we were expecting in our Preliminary Analytical Review work on the draft financial statements. This could be due to inappropriate estimation of the Useful Economic Lives of properties (the depreciation charge is calculated on the basis of these estimated lives) or incorrect application of the Council's policies. We understand the lives used may have changed in the year.</p>	<p>We will review the Council's estimation of Useful Economic Lives of Housing Revenue Account properties for reasonableness. Specifically, we will:</p> <ul style="list-style-type: none"> - enquire into the reasons for any change in Useful Economic Lives applied in the current year - consider the appropriateness of any de minimis policies adopted by the Council - ensure the Council's depreciation policy has been applied consistently - review any correspondence/reports from the external Valuer - ensure that any change in policy or estimation has been correctly disclosed within the financial statements.

Yours faithfully,



Richard Bint
 Senior Partner
 PKF (UK) LLP

cc Robert Palmer, Director of Finance and ICT
 Brian Bassington, Chief Internal Auditor

Appendix

Significant deficiencies in internal control have been identified in the system areas set out below:

Control weakness	Potential Impact	Audit response
Housing and Council Tax Benefit		
<p>Two of the three senior benefits staff did not perform 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims throughout the year, as documented as a control over accuracy of payments within the Council's system notes for benefits.</p> <p>This is one of the Council's stated internal controls and was also reported as a failure in the previous year.</p>	<p>There is an increased risk that incorrect benefit is awarded to claimants, which could result in material misstatement of housing and council tax benefit expenditure.</p>	<p>This control failure reduces the level of assurance we can gain over the occurrence and accuracy of the information recorded on the benefits system and thus calculating the correct benefit award. Our revised approach will be to complete substantive testing on a sample of benefit claimants to ensure that the Council have received the appropriate documentation to support the assessment of benefit claims and that the claims have been awarded correctly.</p>