



EPPING FOREST DISTRICT COUNCIL

PLANNING REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ending 31 March 2016

14 March 2016

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INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of the Council for the year ending 31 March 2016. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Governance Committee and should not be shown to any other person without our express permission in writing.

In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

CONTENT OF OUR REPORT

In this report, we set out the following:

- Our team and responsibilities for this year's audit
 - Our client service commitment
 - An overview of the audit timetable with key dates and deliverables
 - The audit scope and objectives
 - Our preliminary evaluation of materiality
 - Our overall audit strategy
 - Our initial assessment of the key audit risks and other relevant matters along with our planned audit approach
 - Confirmation of independence and consideration of any independence related matters
 - Our proposed fees for the audit.
-

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Zoe Thompson Engagement Lead	Tel: 01473 320 734 Zoe.thompson@bdo.co.uk	Oversee the audit and sign the audit report
Barry Pryke Project Manager	Tel: 01473 320 793 Barry.pryke@bdo.co.uk	Management of the audit
Nuwan Indika Senior	Tel: 01473 320 807 Nuwan.indika@bdo.co.uk	Day to day supervision of the on-site audit

Zoe Thompson is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements and use of resources. In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

She is responsible for the overall quality of the engagement.

OUR CLIENT SERVICE COMMITMENT TO YOU

CLIENT SERVICE EXPECTATIONS

1

High quality audit service at a reasonable cost.

2

A quality team, with relevant expertise.

3

Clear communication.

4

Concentrating our work on areas of higher risk.

5

Avoiding surprises through timely reporting of issues.

6

Consulting with management to resolve matters early.

7

Meeting deadlines.

8

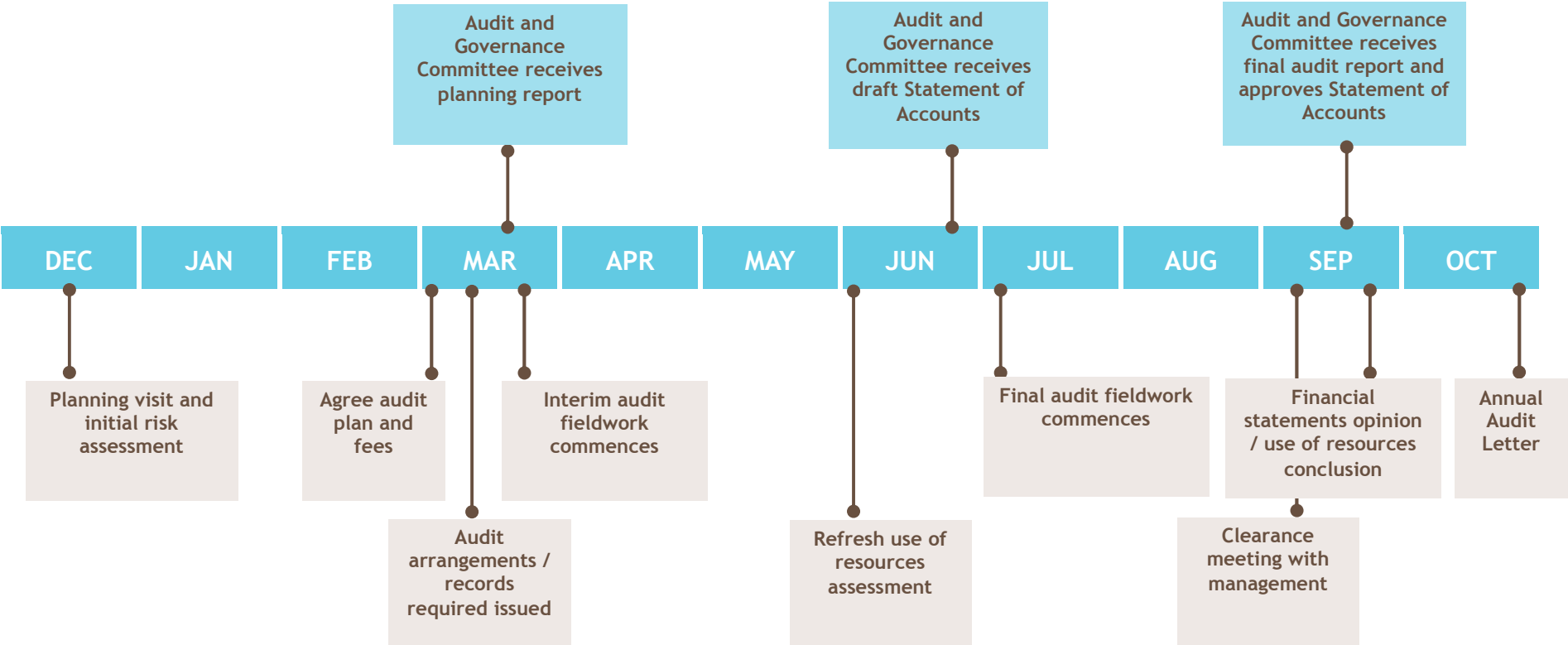
Identifying shortcomings in controls and processes.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.

← CONTINUOUS COMMUNICATIONS →



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p>1 The financial statements give a true and fair view of the financial position of the authority and its expenditure and income for the period in question.</p>	<p>2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p>3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p>4 The return required to facilitate the preparation of WGA consolidated accounts is consistent with the audited financial statements.</p>	<p>5 The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

ADDITIONAL POWERS AND DUTIES

6 To consider the issue of a report in the public interest.
To make a written recommendation to the authority.

7 To allow electors to raise questions about the accounts and consider objections.
To apply to the court for a declaration that an item of account is contrary to law.
To consider whether to issue an advisory notice or to make an application for judicial review.

MATERIALITY

COUNCIL MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Council	£1,900,000	£76,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the Council has been based on 2% of gross expenditure. At this stage, the figure is based on the gross expenditure recognised in the 2014/15 audited financial statements. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 4% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the Council's financial statements and use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the Council's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk during our planning visit in order to gain an understanding of the Council's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and Council-specific level, and draw on relevant cost and performance information as appropriate.

The new, single criterion set by the NAO that underpins our work is:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We then carry out our audit procedures in responses to risks.

Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided sub criteria which we will consider as part of our risk assessment process as follows:

- informed decision making
- sustainable resource deployment
- working with partners and other third parties.

Internal Audit

We will ensure that we maximise the benefit of the overall audit effort carried out by Internal Audit and ourselves, whilst retaining the necessary independence of view.

We understand that Internal Audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit planning and consider whether we are able to place any reliance on Internal Audit work as evidence of the soundness of the control environment.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other issue

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk.</p> <p>In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly.</p>	Not applicable.
Revenue recognition	<p>Under International Standard on Auditing 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements” there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.</p> <p>We consider that, due to the nature of the transactions, this risk is significant in respect of income from fees and charges where the revenue is generated from the raising of invoices and the collection of cash and direct payments arising from payments made for Council services.</p>	<p>We will carry out audit procedures to gain an understanding of the authority’s internal control environment for the significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.</p> <p>We will also substantively test an increased sample of income streams from source document to the general ledger, testing income to supporting documentation and testing an increased sample of receipts either side of the year end to ensure that income is complete, accurately recorded and earned in the year.</p>	Government grant funding will be agreed to information published by the sponsoring Department.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Property, plant and equipment valuations</p>	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.</p> <p>The Council carries out a rolling programme under which relevant items of PPE are revalued at least every five years. The assets that are not revalued in year are assessed to establish whether the carrying value remains materially accurate.</p> <p>There is a risk over the valuation of land and building as the valuations are based on assumptions that are uncertain by nature. There is a risk of material misstatement if inappropriate or inaccurate assumptions are used in the calculation of fair values.</p>	<p>We will review the competence, objectivity and independence of the external valuer engaged by management to assist with the valuation of land and buildings.</p> <p>We will agree a sample of revaluations recognised in the statement of accounts to the external valuers report to ensure that they have been accurately recorded.</p> <p>We will challenge managements assumptions in relation to assets not valued during the year to ensure the fair value is accurately reflected in the financial statements.</p>	<p>We will use the report that will be produced by Gerald Eve LLP, which include the details of general changes in property prices and a review of the qualifications, resources, objectivity and approach of the Valuation Office Agency.</p>
<p>Pension liability assumptions</p>	<p>The net pension liability comprises the Council's share of the market value of assets held in the Essex County Council Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We will review the competence, objectivity and independence of the actuaries responsible for the valuation of the liabilities associated with the Pension Fund.</p> <p>We will also carry out other procedures such as agreeing the contributions paid during the year to the payroll records and review for any significant changes within the Council that affect the pension liability valuation.</p>	<p>We will obtain the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Consideration of related party transactions	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.	We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions. We will discuss with management and review councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.	Companies House searches for undisclosed interests.
Fraud and error	We are required to discuss with you the possibility of material misstatement, due to fraud or error. We are informed by management that there have not been any cases of material fraud or error, to their knowledge.	We will continue to consider throughout the audit process and discuss with management.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Sustainable finances</p>	<p>The spending review announced by the Government in November 2015 confirmed that central government funding for local government will continue to fall following significant reductions implemented during the previous Parliament. Existing funding mechanisms, particularly in relation to local taxation, are also likely to be restructured in the medium-term.</p> <p>The Council's most recent medium term financial strategy (MTFS, prepared in February 2016) takes into account the above factors. Identified savings of £2.6m will need to be delivered during the period 2016/17 - 2019/20 and further savings of £0.5m will need to be identified for the period 2017/18 - 2019/20.</p> <p>The likely changes to local government funding, coupled with the need to deliver savings in the medium term, means that the Council continues to face financial risks. These are, in part, mitigated by the levels of reserves currently held by the Council, which are forecast to remain significantly above the target of 25% of the Council's net budget requirement for the duration of the MTFS.</p>	<p>We will review the Council's MTFS to assess the reasonableness of assumptions used and how the Council is addressing financial pressures.</p> <p>We will consider the progress made by the Council regarding the exploitation of the commercial opportunities it has identified. We will also review the progress it has made with its transformation programme, including any potential efficiency savings arising from the programme.</p>	<p>Not applicable.</p>

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate Audit and Governance Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2016.

We have not identified any potential threats to our independence as auditors.

On the following page, we have recorded details of any non audit services.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2016 are:

	£
Code audit fee	64,672
Certification fee	18,533
Audit related services	TBC
TOTAL FEES	83,205

Code audit fee invoices will be raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

- 1st instalment - £16,168 on 30 June 2015
- 2nd instalment - £16,168 on 30 September 2015
- 3rd instalment - £16,168 on 31 December 2015
- 4th and final instalment - £16,168 on 31 March 2016

Fees for certification work will be invoiced in November 2016.

In 2014/15, we were engaged by management to provide reporting accountant assurance on the pooling of housing capital receipts return. This work is outside of the framework which governs the Code audit work and certification of the housing benefit subsidy return. Should we be appointed to undertake similar work in 2015/16, we will report the fee to the Audit and Governance Committee once agreed with management.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Statutory performance targets
 - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the authority, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
 - We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.
-

APPENDIX I: MATERIALITY

Continued

REASSESSMENT OF MATERIALITY


- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit and Governance Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
 - Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
 - We will obtain written representations from the Audit and Governance Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
 - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory performance targets, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.
-

APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Zoe Thompson - Engagement lead	1	31 March 2021
Barry Pryke - Project manager	3	31 March 2024



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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