

Supplementary Committee Agenda



**Epping Forest
District Council**

Finance and Performance Management Cabinet Committee Thursday, 17th September, 2015

Place: Committee Room 1, Civic Offices, High Street, Epping

Time: 7.30 pm

Democratic Services: Rebecca Perrin, The Office of the Chief Executive
Tel: 01992 564532 Email:
democraticservices@eppingforestdc.gov.uk

10. ANNUAL GOVERNANCE REPORT (Pages 3 - 28)

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EPPING FOREST DISTRICT COUNCIL

FINAL REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2015

9 September 2015

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OVERVIEW

Significant audit findings

This summary covers the significant findings from our audit of Epping Forest District Council ('Council') for the year ended 31 March 2015. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT	SUMMARY
Independence	We have not identified any potential threats to our independence as auditors.
Financial statements audit status	<p>We have substantially completed our work, although there are a number of outstanding items to be received and/or completed at the time of drafting this report. Further detail on the status of our work is set out on the following page.</p> <p>We have obtained sufficient, appropriate audit evidence for the significant issues and risks identified in our Audit Plan, subject to completion of our outstanding work.</p> <p>Our final audit materiality is £1,900,000 (see Appendix III) and we have reported all non-trivial unadjusted audit differences greater than £39,000.</p> <p>Our work identified one material misstatement relating to incorrect data input into the Asset Management System. As a result of this misstatement, the balance on the Revaluation Reserve was overstated by £6,554,747 and the balance on the Capital Adjustment Account understated by the same amount.</p> <p>There is one unadjusted audit difference (see Appendix II) which would increase the draft surplus on the provision of services in the comprehensive income and expenditure account by £88,000 to £15.863 million (from £15.775 million).</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.</p>
Control environment	We did not identify any significant deficiencies in internal controls during the course of our audit.
Governance reporting	We are satisfied that the annual governance statement is not misleading or inconsistent with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).
Whole of Government Accounts (WGA)	The Council is below the threshold for full assurance 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.
Use of resources	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015. We anticipate issuing an unqualified value for money conclusion.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

OVERVIEW

Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2015. The following matters are outstanding at the date of this report.

- Completion of our testing of housing benefit expenditure
- Clearance of outstanding issues raised with management regarding:
 - Evidence to support the revaluation of leisure centres
 - Classification of items relating to creditors and reconciling items in the cash flow statement
 - Calculations to support the bad debt provision for housing benefit debtors
- Final review of our audit work at engagement partner level, and clearance of any review points arising
- Receipt of final draft statement of accounts for agreed amendments
- Subsequent events review
- Management representation letter, as attached in Appendix VI, to be approved and signed.

We will update you on their current status at the Audit and Governance Committee.

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit and Governance Committee meeting	21 September 2015
Completion and issue of the auditor's report	29 September 2015

INDEPENDENCE

Integrity, objectivity and independence and appropriate safeguards

Under Audit Commission Standing Guidance and 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 the 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 bear 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 audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2015.

FEES AND NON AUDIT SERVICES	OTHER RELATIONSHIPS	LONG ASSOCIATION THREATS																		
<p>A summary of fees for audit and non-audit services for the period from 1 April 2014 to date is set out below:</p> <table><thead><tr><th></th><th>£</th></tr></thead><tbody><tr><td>Audit fees</td><td>86,229</td></tr><tr><td>Certification fees</td><td>⁽¹⁾ 24,710</td></tr><tr><td>Fees for non-audit services:</td><td></td></tr><tr><td> Pooled Capital Receipts</td><td>TBC</td></tr><tr><td>TOTAL FEES</td><td>TBC</td></tr></tbody></table>		£	Audit fees	86,229	Certification fees	⁽¹⁾ 24,710	Fees for non-audit services:		Pooled Capital Receipts	TBC	TOTAL FEES	TBC	<p>We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.</p>	<p>The Audit Commission’s Standing Guidance requires that the audit engagement partner should not act for more than five years (or seven with approval from PSAA) and the audit manager for 10 years.</p> <table><thead><tr><th>Key audit staff</th><th>Years involved</th></tr></thead><tbody><tr><td>David Eagles - Audit engagement partner</td><td>3</td></tr><tr><td>Barry Pryke - Audit Manager</td><td>2</td></tr></tbody></table>	Key audit staff	Years involved	David Eagles - Audit engagement partner	3	Barry Pryke - Audit Manager	2
	£																			
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Key audit staff	Years involved																			
David Eagles - Audit engagement partner	3																			
Barry Pryke - Audit Manager	2																			

⁽¹⁾ work remains on-going on the housing benefit subsidy return and the fees shown above is the current Scale fee.

Non audit fees are in relation to the audit of Pooled Capital Receipts which are now outside of the Public Sector Audit Appointments (PSAA) certification regime and will be subject to a separate engagement letter. Arrangements for this piece of work are yet to be confirmed by DCLG and we are therefore unable to confirm the fee.

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

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

AUDIT SCOPE AND OBJECTIVES

Code of audit practice requirements

SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for local government (2010), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. This requires that we form an opinion on whether:

1 The financial statements give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended.

2 The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.

3 The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.

4 The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.

5 The annual governance statement is not misleading or inconsistent with our knowledge and complies with relevant guidance.

6 The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared.

7 The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2014/15 Audit Plan issued in March 2015. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

Key: ■ Significant risk/issue ■ Significant accounting estimates and management judgements ■ Other relevant audit and accounting issues

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	<p>ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>We also reviewed accounting estimates for evidence of possible bias.</p>	<p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p>
VALUATION OF LAND AND BUILDINGS	<p>The calculation of the fair value of land and buildings requires the use of judgement in determining the appropriate assumptions underlying the valuation, and this is susceptible to bias or error. As a result there is a risk of material misstatement if inappropriate or inaccurate estimates or assumptions are used in the calculation of these fair values.</p>	<p>We reviewed the estimates and assumptions used to calculate the fair value of land and buildings to ensure that those used by the valuer are reasonable.</p> <p>We will compare the fair values used within the financial statements to industry suggested values to ensure that the balances used by the Council in their financial statements are reasonable.</p>	<p>At the date of this report, our work on the valuation of land and buildings, specifically the Council's leisure centres, remains ongoing. Further details are provided on pages 6 and 7 of this report.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
ESTIMATE	WORK PERFORMED	CONCLUSION
VALUATION OF PROPERTY Page 10	<p>Land and buildings are required to be carried at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council re-values HRA properties on an annual basis and other land and buildings over a five year rolling programme. There is no adjustment for price indices between formal valuations unless there is indication of material change. The valuation of HRA properties is completed by an external valuer with other land and buildings subject to valuation by a suitably qualified Council officer.</p> <p>Management make valuation adjustments to land and buildings based on valuation reports and useful economic lives provided by external and internal valuers with specialist knowledge and experience valuing local authority estates, whom have regard to local prices and building tender indices in the public sector.</p> <p>We have considered the independence, objectivity and competence of the external and internal valuers engaged by management to undertake valuations of property. We have reviewed the accuracy of the information provided to the valuer by management and have confirmed that the valuations provided by the valuer are correctly reflected in the Council's financial statements. We have utilised price index information to determine the reasonableness of the valuations provided by the valuer.</p>	<p>We are satisfied that the external valuer used to value council dwellings is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components showed that they are not unreasonable.</p> <p>At the time of writing this report, our work on the valuation of the Council's leisure centres remains ongoing. Further details regarding this matter are included on page 7 of this report.</p>
ESTIMATED PENSION LIABILITY	<p>The net pension liability of the Council comprises its share of the market value of assets held in the Essex County Council Pension Fund and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme.</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 has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.</p> <p>Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council.</p>	<p>We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are generally not significantly different from those being applied by the actuaries of other local authorities.</p>
PROVISION FOR BAD AND DOUBTFUL DEBTS	<p>We have reviewed the methodology applied by the Council in estimating the allowance for doubtful debts across all categories of debtor. There has been no change to the method applied when compared to the prior year</p>	<p>Subject to completion of our outstanding work, we are satisfied that the methods employed by the Council to calculate the provision for bad and doubtful debts is not unreasonable.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
<p>VALUATION OF LEISURE CENTRES</p> <p>Page 11</p>	<p>We reviewed the valuations of the Council’s leisure centres which were performed by the Council’s internal valuer and identified a significant increase in the value of these assets. We requested the internal valuer’s working papers to support the valuation but these could not be located. Due to unforeseen circumstances, the officer responsible for the valuation was unavailable during the audit to retrieve the relevant information.</p> <p>We requested that the Council revisit the valuation of the leisure centres and provide supporting working papers. In response, the Council’s Estates and Valuation team provided an indicative opinion on the value of the assets (which was materially different from that recognised in the draft accounts). However, the team were unable to provide a formal valuation due to a lack of experience valuing this type of asset.</p> <p>The Council have now engaged an external valuer to provide a valuation of the leisure centres, which is currently being completed. Once this is done, we will review the revised valuation.</p>	<p>We are unable to conclude until we have received and audited the revised valuation.</p>
<p>REVALUATION RESERVE HISTORICAL COST ADJUSTMENT</p>	<p>Proper accounting practice requires that the Council transfers an amount from the revaluation reserve to the Capital Adjustment Account (CAA) to ensure that any gains held in the revaluation reserve are depreciated at the same rate as the asset to which they relate.</p> <p>Our review of movements in the revaluation reserve identified a historical cost depreciation adjustment of £6.6m. This compares to £122k in the prior year. Further investigation identified that the Council had incorrectly processed historical cost adjustments in the Asset Management System, resulting in historical cost of all revalued assets being written out to the CAA.</p>	<p>We are satisfied that the underlying cause of the error has not had a material impact on the value of property held on the balance sheet. Management have agreed to adjust for the error to ensure that the revaluation reserve and capital adjustment account are correctly stated.</p>

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
<p>NON-DOMESTIC RATES (NDR) APPEALS PROVISION</p>	<p>When calculating the NDR appeals provision, the Council has applied the 2014/15 NDR multiplier¹ to all previous years from the effective date of the appeal, rather than using the prior year multiplier. We consider the latter method to be a more accurate approach and have calculated that the year-end provision has been overstated by £220,025 as a result (of which the Council's share is 40% or £88,010).</p> <p>Had the provision been calculated using prior year multipliers, the reported NDR deficit for the year of £62k on the collection fund would have been a £158k surplus.</p>	<p>We are satisfied that this matter does not have a material impact on either the Council's reported financial performance or the collection fund. However, given that the Council's estimate has resulted in a deficit rather than a surplus being reported on the NDR element of the collection fund, we have raised this matter for your consideration.</p> <p>We have recorded an unadjusted judgemental misstatement in Appendix II.</p>

FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.

¹ NDR is calculated by multiplying the rateable value by a "multiplier", which is expressed as a set number of pence (per pound of value).

GOVERNANCE REPORTING

Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION

The draft financial statements, within the statement of accounts, were prepared and provided to us for audit on 30 June 2015.

As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a file of audit working papers has been provided to us on the first day of the audit.

CONCLUSIONS AND AUDIT ISSUES

We have no matters to report.

GOVERNANCE STATEMENT

We are required to review the draft governance statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.

CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the governance statement is not misleading or inconsistent with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

STATEMENT OF ACCOUNTS

We are required to read all the financial and non-financial information in the explanatory foreword to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

CONCLUSIONS AND AUDIT ISSUES

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

WHOLE OF GOVERNMENT ACCOUNTS

Consistency of the Data Collection Tool

REVIEW OF THE DATA COLLECTION TOOL

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.

ASSURANCE STATEMENT

W will submit the WGA Assurance Statement by the deadline of 2 October 2015.

USE OF RESOURCES

Scope of the review

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience (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 has proper arrangements for challenging how it secures economy, efficiency and effectiveness (prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

APPROACH

We draw sources of assurance relating to value for money responsibilities from:

- the Council's system of internal control as reported on in its governance statement
- the results of the work of inspectorates and review agencies
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

We also consider the findings from the following sources:

- value for money profiles tool and financial ratios analysis tool
- risk indicators
- key issues facing the sector

USE OF RESOURCES

Financial resilience

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which included use of resources risks, in the 2014/15 Audit Plan issued in March 2015. We have since undertaken a more detailed assessment of risk following completion of the interim review of financial controls, review of the draft financial statements and review of operational performance for the year, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk/issue ■ Other relevant use of resources work

RISK	RISK DETAIL	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p>Page 16</p> <p>FINANCIAL RESILIENCE</p>	<p>Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other changes, will have a significant impact on the financial resilience of the Council in the medium term.</p>	<p>We have reviewed the assumptions made in the latest version of the Council's medium term financial strategy (MTFS), which covers the five year period 2015/16 to 2019/20, and considered the level of savings the Council is required to make during the period covered by the strategy.</p> <p>The MTFS shows that the Council expects to be able to maintain a level of general fund (excluding earmarked) reserves which exceeds the member approved level of 25% of the Council's net budget requirement (NBR) which will average £13.2m per annum over the life of the MTFS. At the start of the MTFS, reserves a forecast to be 73% of NBR, falling to 66% at the end of the MTFS.</p> <p>The MTFS shows that the Council is forecasting that savings of £1.0m are required over the next five years. The Council has yet to determine how these savings will be achieved, although the Council has historically met its savings targets. Should these savings not be achieved, the Council has adequate reserves over the life of the MTFS to address the resulting budget gap.</p> <p>The balance on the capital fund will be used up over the life of the MTFS meaning that, should additional capital investment over and above that forecast be required, the Council may need to consider borrowing funds.</p> <p>Changes announced by central government following the election regarding the capping of social housing rent is likely to have a significant impact on the ability of the Council to deliver the HRA business plan as it currently stands. The Council have estimated that rent income will be £14m lower over the four year period covered by the announcement. The Council is currently considering the impact of this on its investment plans for council dwellings and its effect on the proposed repayments of borrowing entered into following the move to HRA self-financing.</p> <p>The Council's MTFS therefore shows that the Council expects to remain in a healthy financial position in the medium term.</p>	<p>No areas of concern were identified that we need to report.</p>

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

The economy, efficiency and effectiveness criterion has two aspects: prioritising resources and improving efficiency and productivity.

Key: ■ Significant risk/issue ■ Other relevant use of resources work

AREA	WORK PERFORMED AND FINDINGS	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 17 CHALLENGING ECONOMY, EFFICIENCY AND EFFECTIVENESS</p>	<p>We have considered the Council's arrangements for improving efficiency and productivity. We have reviewed the Council's operations during the year for evidence which demonstrates that it is taking action to prioritise its resources.</p> <p>The Council has produced a "Value for Money" strategy, which sets out its corporate arrangements for delivering value for money services which meet the needs of residents and service users. This describes the concept of value for money and describes how the Council aims to achieve it. It is available to all officers.</p> <p>The Council has continued to develop annual budgets which reflect the priorities outlined in its Corporate Plan. The existing Corporate Plan came to an end in March 2015 and a new Corporate Plan, covering the period 2015 - 2020 has recently been approved by members. Delivery against the objectives in the plan will be enabled via an annual key action plan, which will set out what needs to be achieved and when to ensure that the aims of the Corporate Plan are being met.</p> <p>Key performance indicators were developed at the beginning of 2014/15, with 36 KPIs covering all four directorates. Progress against these has been reported to the Finance and Performance Management Cabinet Committee on a quarterly basis, allowing members to identify areas where performance may require improvement and providing the opportunity to challenge officers where necessary.</p> <p>During 2014/15, the Council entered discussions regarding a local non-domestic rates pool with nine other authorities in Essex and the pooling arrangement came into force on 1 April 2015. The Council expects to gain approximately £136k from this arrangement, although the impact of non-domestic rate appeals submitted prior to the 31 March deadline may have an impact on this amount.</p> <p>The Council has re-tendered its waste contract during the year, with the successful bidder taking over in November 2014. The contractor has recently experienced operational issues which have had a negative impact on service delivery. The Council has engaged with the contractor at a senior level to address the issues, resulting in an improvement in the service.</p>	<p>No areas of concern were identified that we need to report.</p>

USE OF RESOURCES CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015. We anticipate issuing an unqualified value for money conclusion.



APPENDICES



APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Epping Forest District Council
Management	<p>The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for:</p> <ul style="list-style-type: none"> the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
Those charged with governance	<p>The persons with responsibility for assurance and the Council’s arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process. Those charged with governance for the Council are the Audit and Governance Committee.</p>
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC(Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLACE	Society of Local Authority Chief Executives
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit and Governance Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

Management has made one correction in the revised draft financial statements in respect of incorrect data entry on the Asset Management System which has increased the surplus for the year by £188,543. This issue has also resulted in a material correction to the revaluation reserve and CAA, as detailed in the 'Key Audit and Accounting Matters' section of this report.

UNADJUSTED AUDIT DIFFERENCES

There is one unadjusted audit difference identified by our audit work which would increase the draft surplus on the provision of services in the CIES by £88,000 to £15.863 million (from £15.775 million).

This uncorrected audit difference (which is recorded as a judgemental/estimation misstatement) is shown in the schedule on the following page. We request that you correct this misstatement. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

We have also separately reported the impact of brought forward prior year uncorrected misstatements and their impact on the current year performance. These amounts remain misstatements with regard to reporting in year financial performance, but are not misstatements at the year end and cannot be corrected as these relate to previous years. Overall, the impact of prior year misstatements on current year performance would increase the reported underlying surplus for the current year by £115,000.

APPENDIX II: AUDIT DIFFERENCES

Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
CIES (surplus) or deficit on the provision of services before adjustments	(15,775)				
Dr Deferred Income				115	
Cr Income	(115)		(115)		
<p><i>The brought forward extrapolated error occurring as a result of an amount of £5,000 being recognised as income in the prior year when it should have been included in deferred income and released to the CIES in 2014/15.</i></p> <p><i>As this prior year error relates to a timing difference, it affects in year performance only and has no impact on the general fund balance.</i></p>					
Dr Provisions				88	
Cr NDR appeals provision	(88)		(88)		
<p><i>Council's share of over provided NDR appeals (judgemental / estimation misstatement)</i></p> <p><i>The impact of the appeals provision reflected in the surplus on the provision of services does not have an impact on the general fund balance as it is replaced by the Council's share of NDR income estimated before the start of the year under statutory arrangements.</i></p>					
TOTAL UNADJUSTED AUDIT DIFFERENCES	(203)		(203)	203	
CIES (surplus) or deficit on the provision of services after adjustments	(15,978)				

IMPACT ON GENERAL FUND AND HRA BALANCES	GENERAL FUND BALANCE	HRA BALANCE
	£'000	£'000
Balances before adjustments	(9,293)	(2,570)
Adjustments to CIES above	-	-
Balances after adjustments	(9,381)	(2,570)

APPENDIX III: MATERIALITY

In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements. Materiality may relate to both quantitative and qualitative matters, and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

MATERIALITY

Planning materiality	£1,929,000
Final materiality	£1,900,000
De minimis threshold	£39,000

Planning materiality of £1,929,000 was based on 2% of gross expenditure from 2013/14 audited statement of accounts.

We have no reason to revise our final materiality level.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS				
<p>Valuation of Leisure Centres</p> <p>The Council were unable to locate working papers to support the valuation of the leisure centres recognised in the draft version of the accounts.</p>	<p>Implement a system to obtain, store and retrieve all working papers supporting amounts recognised in the financial statements so that these are readily available for audit purposes</p>	<p>Agreed</p>	<p>Assistant Director - Resources</p>	<p>March 2016</p>
<p>Revaluation Reserve Historical Cost Adjustment</p> <p>Incorrect data input uploaded to the Asset Management System during the year resulted in a material error in the revaluation reserve and capital adjustment account.</p>	<p>Provide training to AMS users to ensure data input is correct</p> <p>Complete analytical review of draft accounts to assist with the identification of material errors prior to submission for audit</p>	<p>Agreed</p> <p>Agreed</p>	<p>Principal Accountant</p> <p>Assistant Director - Resources</p>	<p>December 2015</p> <p>May 2016</p>

APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)			Financial statements section of this report
Significant difficulties encountered during the audit (ISA 260)		No issues	
Significant matters discussed or subject to correspondence with management (ISA 260)		No issues	
The final draft of the representation letter (ISA 260)		Appendix VI	
Independence (ISA 260)			Independence section of this report
Fraud and illegal acts (ISA 240)		No issues	
Non-compliance with laws and regulations (ISA 250)		No issues	
Significant deficiencies in internal control (ISA 265)		No issues	
Misstatements, whether or not corrected by the entity (ISA 450)		Appendix II	
Significant matters in connection with related parties (ISA 550)		No issues	
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)		No issues	
Matters relating to the audit of the group (ISA 600)		No issues	
Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)		No issues	
Material inconsistencies with other information in documents containing audited financial information (ISA 720)		No issues	
Objections from the public or exercise of statutory powers under the Audit Commission Act 1998		No issues	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

September 2015

Dear Sirs

Financial statements of Epping Forest District Council for the year ended 31 March 2015

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2015 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Resources has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2015 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2011, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the annual governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the fair value measurements in relation to the following are reasonable and that there are no circumstances of which we are aware that would have a material impact on the values reported:

- fair value of property, plant and equipment
- assumptions underpinning the reported pension liability

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Bob Palmer

Director of Resources

September 2015

Councillor J Knapman

Chairman of Audit and Governance Committee

Signed on behalf of the Audit and Governance Committee

September 2015

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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