Supplementary Committee Agenda

Epping Forest District Council

Audit & Governance Committee
Thursday 28th March 2024

Place:	Council Chamber - Civic Offices
Time:	7.00 pm
Democratic Services:	Laura Kirman Tel: 01992 564243 Email: democraticservices@eppingforestdc.gov.uk

7. EXTERNAL AUDITOR UPDATE (Pages 2 - 56)

(Deloitte, External Auditor) To consider the following reports:

a) Audit Planning Report 2021/22, and
b) ISO 260 Report 2021/22

Deloitte.

Epping Forest District Council

Agenda Item 7

Audit planning report to the Audit & Governance Committee for the year ended 31 March 2022

Issued for the Audit & Governance Committee.

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our planning report to the Audit & Governance Committee for the 2021/22 audit. We would like to draw your attention to the key messages as set out below:

Audit Scope

Our principal audit objective is to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of the Council prepared in accordance with the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA for the year ended 31 March 2022. We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISAs UK") as adopted by the UK Auditing Practices Board ("APB"), and Code of Audit Practice issued by the National Audit Office.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in the 'PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies' published by Public Sector Audit Appointments Limited.

Significant Risks

The Code requires that the auditor's work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk. In relation to our audit for the year ended 31 March 2022, we have identified the following significant audit risks:

- Valuation of properties – Fixed assets and investment properties – there is significant judgement over the subjective inputs to the valuation.
- Capitalisation of expenditure – there is judgement over the appropriate classification of spend between capital and revenue. The Council has greater flexibility over the use of its revenue compared to its capital resources. This provides a potential incentive to inappropriately classify spend as capital which does not meet the accounting criteria for classification as such.
- Management override of controls – auditing standards presume there is a risk that the accounts may be fraudulently misstated by management overriding controls. Key areas of focus are: bias in the preparation of accounting estimates; inappropriate journal entries; and transactions which have no economic substance.

International Standards on Auditing set a rebuttable presumption of the risk of fraud in the recognition of revenue. During 2020/21, the Authority received significant funding in relation to COVID-19 and therefore we identified a new significant risk in relation to COVID-19 related income in 2020/21 and rebutted the presumption of significant risk for other income streams. Whilst the Authority has received further COVID-19 grants in 2021/22, these were significantly reduced, therefore, COVID-19 related income will be treated as a high risk area instead of significant risk area for the 2021/22 audit.

Introduction (continued)

The key messages in this report (continued)

Progress of our audit planning procedures	As we are finalising our audit of the 2020/21 accounts (subject to our satisfactory assessment of the implementation of the guidance from CIPFA on infrastructure assets), we are also currently concluding our 2021/22 planning procedures and will update the committee once our procedures are concluded.
Issues identified in 2020/21	As per the requirement of ISA260, we are required to communicate with those charged with governance matters identified in our audit. We are in the process of finalising the FY 20/21 audit. We will follow up on any control recommendation and assess whether management has adequately implemented our recommendation. This assessment will further inform our risk assessment and we will update the authority if we choose to make changes to our risk assessment in respect of this follow up. We will also report to the Audit & Governance Committee on our findings with respect to the follow up of the prior year recommendations.
Value for Money	The Code requires that the auditor’s work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk. The National Audit Office (NAO) issued a revised Code of Audit Practice from 2020/21 onwards, with a revised approach to “Value for Money” work. This has moved to a regime of narrative reporting in a new public “Annual Auditor’s Report”. We will continue to follow the revised code guidance for our VFM work.

Responsibilities of the Audit & Governance Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit & Governance Committee?

As a result of regulatory change in recent years, the role of the Audit & Governance Committee has significantly expanded. We set out here a summary of the core areas of Audit & Governance Committee responsibility to provide a reference in respect of these broader responsibilities.

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate

Integrity of reporting

- Impact assessment of key judgements and level of management challenge
- Review of external audit findings, key judgements, and level of misstatements
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets
- Assess the completeness of disclosures, including consistency with disclosures on operational model and strategy

Internal controls and risks

- Review the internal control and risk management systems
- Explain what actions have been, or are being, taken to remedy any significant failings or weaknesses

Oversight of internal audit

- Monitor and review the effectiveness of the internal audit activities
- Consider annually whether the scope of the internal audit programme is adequate

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties

Your control environment

What we consider when we plan the audit

We expect officers and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

Responsibilities of officers

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of officers and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Audit & Governance Committee

As explained further in the Responsibilities of the Audit & Governance Committee slide on the previous page, the Audit & Governance Committee is responsible for:

- Reviewing the internal control and risk management systems (unless expressly addressed by a separate risk committee).
- Explaining what actions have been or are being taken to remedy any significant failings or weaknesses.

As stakeholders tell us that they to wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. We will be placing increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

Reliance on controls	We test evaluate the design and test the implementation of key controls for the audit. We have historically not adopted a control reliant approach, on the basis of efficiency.
Performance materiality	We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality, with reference to factors such as the quality of the control environment and the historical error rate. Where we are unable to rely on controls, we may use a lower level of performance materiality.

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

We have spent time with management understanding the current year matters to assist with the preparation of our risk assessment for the audit. The matter which will have the biggest impact will be the continuing impacts from the Covid-19 pandemic. We will continue to keep this under review throughout the audit process.

Scoping

Our work will be carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report, including key audit matters if applicable.

Determine materiality

We will use materiality levels in planning our audit as per page 8. Our planning materiality is based on 2% of Gross Expenditures of the Group/Authority as reported in draft accounts for 2021/22. Our performance materiality will be 70% of our planning materiality.

Significant risk assessment

We have made a preliminary assessment of significant audit risks in relation to the Authority. Our risk assessment at planning stage remains consistent with last year, except for COVID-19 grant income which has been assessed as a high risk for 2021/22 instead of a significant risk. We will continue our risk assessment procedures during the audit and will update you if there is any change in our risk assessment. More detail is given on pages 12 to 15.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of Epping Forest District Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Materiality

Our approach to materiality

Basis of our materiality benchmark

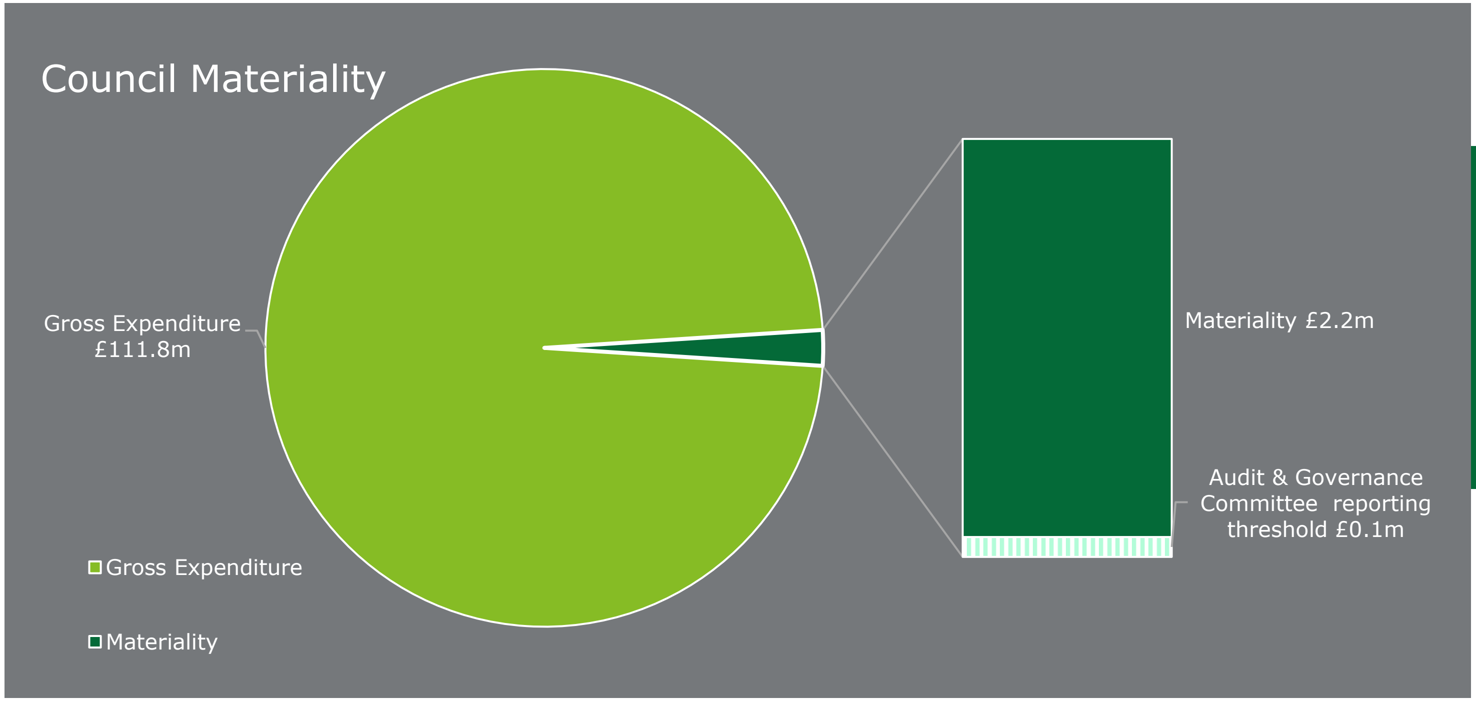
- We have determined materiality of £2.2m (2020/21 £2.4m)) and performance materiality as £1.6m (2020/21: £1.7m), based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the financial statements.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £0.1m (2020/21 £0.1m).
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Group scoping

The Council has a wholly owned subsidiary - Qualis group which consist of Qualis Management, Qualis Living and Qualis Commercial. The results of these entities are consolidated in the group accounts. Our group scoping for 2021/22 is still in progress, we will report on the outcome of our group scoping exercise to the Council in our future communication



Although materiality is the judgement of the audit partner, the Audit & Governance Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scope of work and approach

We have the following areas of responsibility under the Audit Code

Statement of accounts

We will conduct our audit in accordance with the Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO") and International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB").

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure
- Are prepared properly in accordance with the Code of Practice on Local Authority Accounting ("the Code").

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Whole Government Accounts

We are required to issue a separate assurance report to the NAO on the Authority's separate return required for the purposes of its audit of the Whole of Government Accounts.

HM Treasury (HMT) have not yet issued the guidance for local government for the year ended 31 March 2022. We will commence our work on the WGA after the issuance of the guidance.

Annual Governance Statement

We are required to consider whether there are any inconsistencies between the Annual Governance Statement and the financial statements and information that we are aware of from our work on the statement of accounts, VfM conclusion and other work.

We will also review any reports from relevant regulatory bodies and any related action plans developed by the Authority.

Value for Money conclusion

For our Value for Money procedures, we are required to consider the following:

- arrangements that the Authority has made securing financial resilience and economy, efficiency and effectiveness in its use of resources;
- If we identify any significant weaknesses to make recommendations; and
- to provide a narrative commentary on arrangements.

To perform this work, we are required to:

- Obtain an understanding of the Authority's arrangements sufficient to support our risk assessment and commentary;
- Assess whether there are risks of a significant weakness in the Authority's arrangements, and perform additional procedures if a risk is identified. If a significant weakness is identified, we report this and an accompanying recommendation;
- Report in our audit opinion if we have reported any significant weaknesses.
- Issue a narrative commentary in our Annual Auditor's Report on the arrangements in place.

This will require a minimum level of work at every local public body, with additional risk based work where relevant.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by PSAA

Scope of work and approach (continued)

Our approach

Liaison with Internal Audit

The Auditing Standards Board’s version of ISA (UK) 610 “Using the work of internal auditors” prohibits use of Internal Audit to provide “direct assistance” to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review Internal Audit reports and meet with the team to discuss their work. We will discuss the work plan for Internal Audit, and where they have identified specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with Internal Audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be ‘relevant to the audit’. This involves evaluating the design of the controls and determining whether they have been implemented (“D & I”).

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council complete the Code checklist during drafting of their financial statements.

We will perform an early review of the draft financial statements and will provide any insights to management on a timely basis.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously, and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.

Planning	Year end fieldwork	Reporting activities
Planning meetings to inform risk assessment; and agree on key judgemental accounting issues. Update understanding of key and changes to financial reporting. Review of key Council documents including Executive, Council and Audit & Governance Committee minutes.	Document design and implementation of key controls and update understanding of key business cycles. Update on value for money responsibilities. Scoping of components for the Group audit. Substantive testing of all areas. Finalisation of work in support of value for money responsibilities. Detailed review of annual accounts and report, including Annual Governance Statement. Review of final internal audit reports and opinion. Completion of testing on significant audit risks.	Year-end closing meetings. Reporting of significant control deficiencies. Signing audit reports in respect of Financial Statements. Assurance procedures on the Council's WGA return Issuing Auditor's Annual Report.
2021/22 Audit Plan	Verbal update to the Audit & Governance Committee	Final report to the Audit & Governance Committee
May 2023	**July - August 2023**	**September 2023**

Ongoing communication and feedback

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Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the Narrative Report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the Narrative Report and financial statements;
- the disclosures made by the Audit & Governance Committee in their previous Audit & Governance Committee report;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last Narrative Report and financial statements.

Deloitte view

Management must carefully consider the principal risks, uncertainties and accounting estimates of the Council.

Page 12 to 15 summarises the significant risks that we will focus on during our audit.

Principal risk and uncertainties

- Resource management
- Information governance
- Ability to secure commercial opportunities
- Underachievement of savings
- Health & Safety

Changes in your business and environment

- Impacts of Covid-19
- Upcoming capital projects

IAS 1 Critical accounting estimates

- Future funding levels
- Property valuations
- Investment valuations
- Pension liabilities
- Provisions and contingencies

Significant risks (continued)

Risk 1 – Property Valuations

Risk identified

The Council held dwellings of £774.6m and other land and buildings of £57m at 31 March 2022 which are required to be recorded at current or fair value at the balance sheet date.

The fixed asset portfolio is divided into five key asset categories. The Council's practice is to obtain a specific valuation on one of the five asset categories on a cyclical basis. This approach leads to the full asset portfolio being evaluated within each five-year period. In addition to this specific exercise the Council also obtains advice as to whether there has been a material change in the period up to the balance sheet date based on indices. Any changes based on index factors are then applied to the total asset base.

Key judgements include:

- Whether there has been a material change since the date of the last valuation.
- In the valuation of dwellings, defining appropriate beacon groups, such that the level of homogeneity of properties within each group is appropriate, and selecting appropriate comparators and, where relevant, making appropriate adjustments.

Our response

Our work in this area will include the following:

- We will review the design and implementation of the key controls in place in relation to property valuations;
- We will consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We will engage with our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets;
- We will sample test key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation;
- We will review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- We will review the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.

Significant risks (continued)

Risk 2 – Revenue expenditure incorrectly capitalised

Risk identified	The Council has a substantial capital programme and had spend of £17.9m for capital works during 2021/22 (2020/21: £13.0m). There was a net increase of £3.5 million in expenditure on the HRA Capital Programme in the year compared to 2020/21, as the Council continued to roll out the Housing Development Programme. Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards. The Council has greater flexibility of the use of revenue resource compared to capital resource. There is also, therefore a potential incentive for officers to misclassify revenue expenditure as capital as will impact the surplus/deficit recorded by the Council at year end.
Our response	Our work in this area will include the following: • We will test the design and implementation of controls around the capitalisation of costs. • We will select a sample of additions in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements.

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Significant risks (continued)

Risk 3 – Management override of controls

Risk identified	In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions. The key judgments in the financial statements are those which we have selected to be the significant audit risks; capitalisation of expenditure and valuation of the Authority's property assets. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: **Test the appropriateness of journal entries** recorded in the general ledger and other adjustments made in the preparation of the annual accounts. In designing and performing audit procedures for such tests, we plan to: • Test the design and implementation of controls over journal entry processing; • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; • Select journal entries and other adjustments made at the end of a reporting period; and • Consider the need to test journal entries and other adjustments throughout the period. **Review accounting estimates for biases** and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we plan to: • Evaluate whether the judgments and decisions made by officers in making the accounting estimates included in the annual accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, we will re-evaluate the accounting estimates taken as a whole; and • Perform a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the annual accounts of the prior year. **For significant transactions that are outside the normal course of business** for the entity, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit, we shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

Other areas of audit focus

Infrastructure Assets

Risk identified	There has been discussion at a national level on the accounting for subsequent expenditure on infrastructure assets (for example the cost of renewing a road surface) and specifically whether local authorities should be assessing if there is any undepreciated cost remaining on the balance sheet for the replaced components which need to be derecognised. The council held infrastructure assets of £8.8m at 31 March 2022. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 requires authorities to derecognize the gross cost and accumulated depreciation on infrastructure assets when a major part/component of that asset has been replaced or decommissioned. We are assessing if the Council has a process to identify components or types of assets with shorter useful lives and de recognise parts of its infrastructure which have been replaced. There is a risk that infrastructure assets may contain parts which have been replaced, and other components may need to depreciate over shorter period and we may not able to quantify the adjustment required.
Deloitte response and challenge	We will complete the following procedures: • Assess the design and implementation of the controls in place relating to the valuation of infrastructure assets. • On derecognition of components: The audit team will need to confirm if the Council has opted to apply the SI and have made the assumption that the carrying amount of any assets that have been replaced was nil. The audit team will review the Statement of Accounts and confirm that this disclosure has been made. • Gross book value and accumulated depreciation: The audit team will review the infrastructure assets disclosure included in the Council's revised financial statements and compare this to the CIPFA Bulletin example to confirm that no issues have been identified. • Infrastructure Asset disaggregation: The audit team will challenge the disaggregation of infrastructure assets as reflected on the fixed asset register and conclude on whether the disaggregation is reasonable. • The audit team will review and challenge the determination of the useful economic lives applied to infrastructure assets by the Council and confirm if the rationale for the determination of the useful economic lives to be appropriately supported and reasonable in light of information reviewed. • The audit team will review any revised accounting policies and compared these to the example accounting policy included in the CIPFA Bulletin annex A.

Other areas of audit focus (continued)

Pension Liability

Risk identified and key judgements

The Council participates in the Local Government Pension Scheme, administered by Essex County Council.

The Council's Pension Liability fell by £18.2m from £69.1m to £50.9m in the year. Pension assumptions are a complex and judgemental area and the calculation is reliant on accurate membership data provided to the actuary.

We have thus identified this as an other area of audit focus to report to the Audit & Governance Committee as a key area of management judgement.

Local Government Pension Scheme

For the Local Government Pension Scheme (LGPS), it is possible to identify Epping Forest District Council portion of the assets and liabilities, and the Local Authority Accounting Code of Practice requires full disclosure of the Council's share of the LGPS within its financial statements. There are a large number of judgments inherent in the calculation of the scheme liability, including future inflation rates and appropriate discount rates. Small movements in these rates can have a material impact. Additionally, there are judgements implicit in allocating Epping Forest District Council's share of the assets of the scheme.

Deloitte response and challenge

We will carry out a separate, detailed risk assessment of each of the individual components of the calculation (for example market assumptions, membership data provided by the Council) using a developed methodology which takes into account factors such as an assessment of the actuary carried out centrally by our actuarial experts and whether there have been any significant changes expected in the membership. We scope our work, including the nature and extent of our actuarial specialist's involvement, in a way which responds to this detailed risk assessment. In relation to pension assets, we will seek to obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.

We will review the disclosure based on the IAS 19 report issued to the Council's by the actuary and we will assess the competence and objectivity of the work of the actuary.

We will review and challenge the assumptions made by Barnett Waddingham, including benchmarking.

We will assess the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements

Value for Money

Areas of focus

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03, we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria:
    - **Financial sustainability**: How the body plans and manages its resources to ensure it can continue to deliver its services.
    - **Governance**: How the body ensures that it makes informed decisions and properly manages its risks.
    - **Improving economy, efficiency and effectiveness**: How the body uses information about its costs and performance to improve the way it manages and delivers its services.
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report (which replaces the Annual Audit Letter), setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to VfM arrangements, which might include emerging risks or issues.
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

Specific areas that we expect to focus on in understanding the Council's arrangements include the Council's longer term planning for financial sustainability, including Covid-19 pressure.

AGN03 requires auditors to set out the results of their risk assessment as part of the audit planning report. Our work is currently in progress and discussion has been held with officers around the VfM reporting requirements. We will report to a later Audit & Governance Committee on any matters arising from this work. Specific areas that we expect to focus on in understanding the Authority's arrangements include: Financial sustainability and Governance.

Audit quality

Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

- We will apply professional scepticism on the valuation of land and building and other significant judgements
- We will obtain a deep understanding of your business, its environment and of your processes such as Revenue, Fixed Assets, Financial Reporting enabling us to develop a risk-focused approach tailored to the Authority.
- Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve IT specialists and also Deloitte Real Estate to support the audit team in our work on valuation and pensions specialists in our work on the pension fund liability.
- In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills.

Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our respective responsibilities are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies." The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the NAO Code of Audit Practice. The responsibilities of audited bodies are derived principally the Local Audit and Accountability Act 2014 and from the Accounts and Audit Regulations 2015.

Our report is designed to communicate our preliminary audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our preliminary audit plan, including key audit judgements and the planned scope.

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Use of this report

This report has been prepared for the Audit & Governance Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

What we don’t report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

In the prior year, we communicated audit findings and control recommendations to management, and these will be followed up as part of our audit visits to assess how these have been addressed in the current year.

Deloitte LLP

Birmingham| 18 April 2023

Appendices

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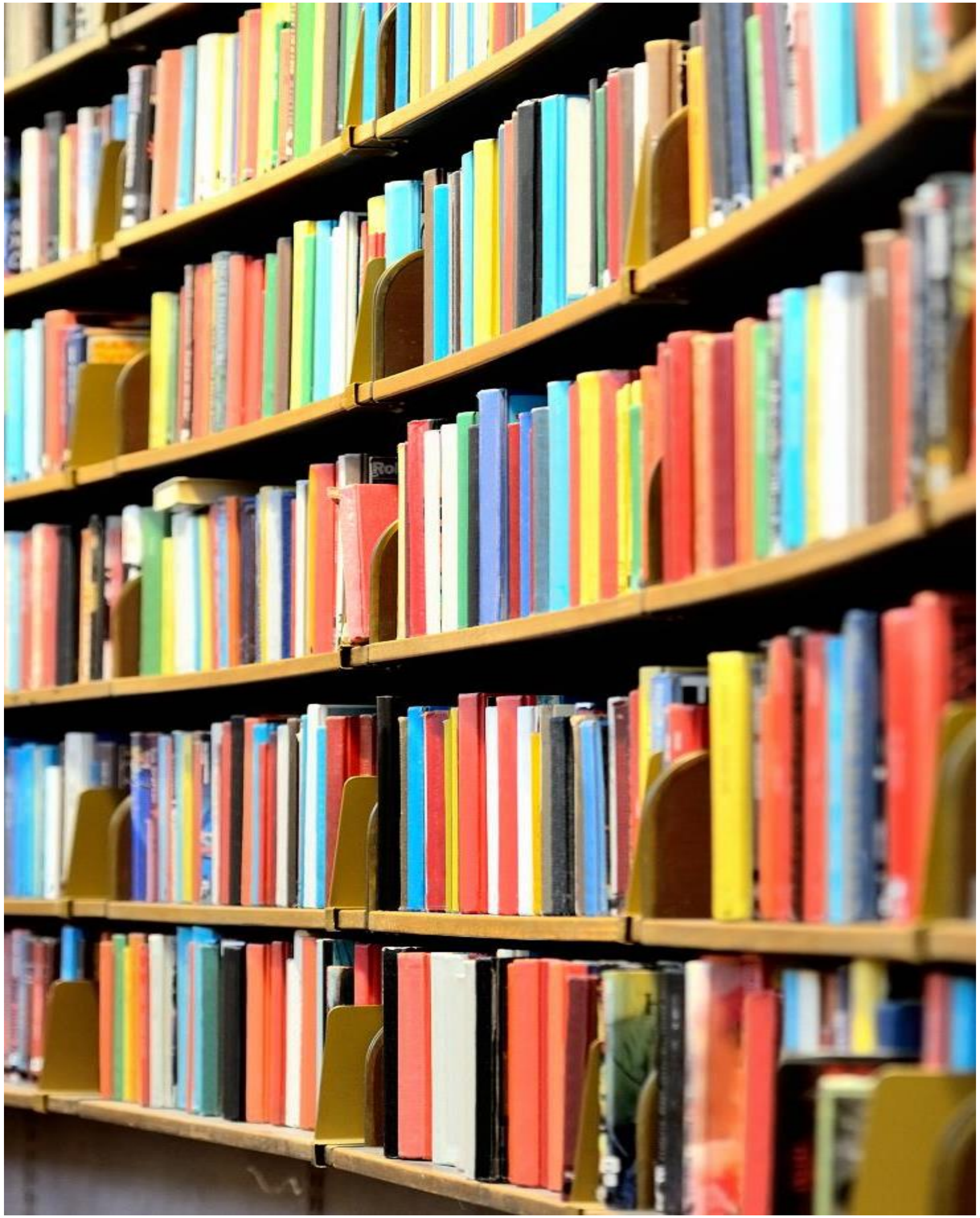

Appendix 1: Fraud responsibilities and representations

Responsibilities explained

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our Responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in capital expenditure, valuation of land and buildings, and management override of controls as key audit risks for the Council.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 1: Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Appendix 2: Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit & Governance Committee for the year ended 31 March 2022 in our final report to the Audit & Governance Committee.
Fees	There are no non-audit fees for 2021/22 outside of those noted in the table on the following page.
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Appendix 2: Independence and fees (continued)

The professional fees expected to be charged by Deloitte in the period from 1 April 2021 to 31 March 2022 are as follows:

	2021/22 £	2020/21 £
Financial statement [1]	49,797	49,797
Additional fees – previously proposed [2]	57,500	70,200
Additional fee following completion [3]	TBC	TBC
Total audit fees	**107,297**	**119,997**

[1] The fee reflected here is the scale fee.

[2] Additional fees proposed (letter dated 30 July 2021) to reflect increased costs for the Authority's audit, change in scope for Value for Money, Impact of Covid 19 and transition to consolidated accounts. The majority of these are expected to be recurring in 21/22.

[3] Additional input will be confirmed following completion of the audit.

In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we will discuss the final position with the Council on completion of the 2021/22 audit.

All additional fees are subject to agreement with PSAA.

Our approach to quality

FRC Audit Quality Inspection and Supervision report

We are proud of our people's commitment to delivering high quality audits and we continue to have an uncompromising focus on audit quality. Audit quality is and will remain our number one priority and is the foundation of our recruitment, learning and development, promotion and reward structures.

In July 2022 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2021/22 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, we are pleased that both the overall and FTSE 350 inspection results for our audits selected by the FRC as part of the 2021/22 inspection cycle show an improvement. 82% of all inspections in the current cycle were assessed as good or needing limited improvement, compared to 79% last year. Of the FTSE 350 audits reviewed, 91% achieved this standard (2020/21: 73%). This reflects our ongoing focus on audit quality, and we will maintain our emphasis on continuous improvement as we seek to further enhance quality.

We welcome the breadth and depth of good practice points identified by the FRC particularly those in respect of the effective challenge of management and group audit oversight, where the FRC also reports findings.

We are also pleased that previous recurring findings relating to goodwill impairment and revenue were not identified as key finding in the current FRC inspection cycle, reflecting the positive impact of actions taken in previous years. We nevertheless remain committed to sustained focus and investment in these areas and more broadly to achieve consistently high-quality audits.

All the AQR public reports are available on its website: https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

The AQR's 2021/22 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had made progress on actions to address our previous findings and made improvements in relation to its audit execution and firm-wide procedures. The firm has continued to show improvement, with an increase in the number of audits we assessed as requiring no more than limited improvements to 82% compared with 79% in the previous year and 80% on average over the past five years. It is also encouraging that none of the audits we inspected were found to require significant improvements.

The area which contributed most to the audits requiring improvement was the audit of estimates of certain provisions. There were also key findings in relation to group audits, the review and challenge by the Engagement Quality Control Review (EQCR) partner and the application of the FRC Ethical Standard."

Deloitte.

Epping Forest District Council

Epping Forest District Council

Report to the Audit and Governance Committee on the audit for the year ended 31 March 2022

Issued for discussion for the meeting on 28 March 2024

Contents

01 Our report

02 Appendices

Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our report to the Audit and Governance Committee of Epping Forest District Council (the Council) for the 2021/22 audit. The scope of our audit was set out within our planning report shared with management and this Committee.

Status of the audit

Our audit is nearing completion and at the date of issue of this report with the following key matters still outstanding:

- Review and tie through of the final, updated financial statements;
- Completion of our internal quality assurance procedures;
- Receipt of a signed management representation letter; and
- Our review of events since 31 March 2022 through to signing.

We have included a section in this report providing observations arising from the work we have so far carried out on the areas of significant risk and other areas of audit focus reported to you in our audit planning report.

Status of our Value for Money audit

Our Value for Money work is ongoing. The NAO have issued supplementary guidance (SGN02) which makes it possible to issue VFM commentary in one document, which covers two years. We intend to issue a combined Auditors Annual Report which will cover the conclusions of our VFM work for 2021/22 and 2022/23 explicitly.

We have no matters to report by exception in our financial statement audit opinion to date.

Conclusions from our testing

- We have not identified any significant uncorrected audit adjustments or disclosure deficiencies.
- We have summarised audit adjustments noted on page 24.
- Based on the current status of our work and us finalising our remaining audit work with no further issues, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.
- We have provided a status of the internal control deficiencies which have been included from page 17.

Introduction

The key messages in this report (continued)

Narrative Report & Annual Governance Statement	• We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. • We have no significant matters to raise with you in respect of the Narrative. We also have no significant matters in respect of the Annual Governance Statement.
Duties as public auditor	• We had not received any formal queries or objections from local electors this year. • We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	We are required to report our overall audit opinion and key issues from our audit to the National Audit Office (NAO) following completion of the audit. However, the NAO have not yet confirmed for 2021/22, bodies which may be subject to additional procedures for reporting to the NAO to gain comfort over the WGA. Therefore, we are not able to confirm completion of the audit in this regard.

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Mohammed Ramzan
Audit lead

Our audit explained

We tailor our audit to your organisation

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

These were the continuing impacts from the pandemic but based on the work we have performed, there hasn't been a significant impact because of Covid-19.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. These are set out from page 17 of this report.

Identify changes in your business and environment → Determine materiality → Scoping → Significant risk assessment → Conclude on significant risk areas → Other findings → Our audit report

Determine materiality

When planning our audit, we set our council materiality at £2,236k (2020/21: £2,110k) based on gross spend on services and report to you in this paper all misstatements above £111k (2020/21: £105k).

Materiality has not changed since our planning report.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement

Conclude on significant risk areas

We draw to the Committee's attention our observations on the significant and area of focus audit risks. The Committee members must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report.

Significant risks

Risk 1 – Property Valuation – Fixed assets and investment properties

Risk identified
The Council is required to hold property assets within Property, Plant and Equipment ("PPE") and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions, and which can be subject to material changes in value.

Key judgements and our challenge of them

The Council holds Council Dwellings & Garages, other land & buildings and investment properties at 31 March 2022 which are required to be recorded at current or fair value at the balance sheet date, the significant risk identified therefore applies to these classes of assets.

Valuation of property assets and investment property is a significant risk area due to the inherent degree of complexity, estimation and potential variability in the valuation methodologies that can be applied.

Deloitte response

- We tested the design and implementation of key controls in place around the property valuation.
- We used our valuation specialists to review the methodology and approach and to challenge the appropriateness of the year-end valuation, focusing on the key subjective inputs.
- Our specialists have also evaluated the methodology applied in and the outcomes of the full valuation of the Council Dwellings category, performed as at 31 March 2022.
- We tested a sample of key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation.
- Reviewed assets not subject to valuation in 2021/22 in order to confirm that the remaining asset base is not materially misstated; and.
- Reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.

We have not identified any material misstatement.

Significant risks (continued)

Risk 2 – Revenue expenditure incorrectly capitalised

Risk identified

The Council has a substantial capital programme of General Fund (£72.4m) and HRA (£39.506m) during the year. Though capital expenditure remains below the budget for both General Fund - £25.676m (2020/21: £49.260) and HRA £21.414m (2020/21: £17.930m), the total capital expenditure remains material to the accounts.)

Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.

The Council has greater flexibility of the use of revenue resource compared to capital resource. There is also, therefore a potential incentive for officers to misclassify revenue expenditure as capital as will impact the surplus/deficit recorded by the Council at year end.

Deloitte view

We have not identified any material misstatement

Deloitte response

- We tested the design and implementation of controls around the capitalisation of costs.
- We tested a sample of capital items in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements.

Significant risks (continued)

Risk 3 - Management override of controls

Risk identified
In accordance with ISA 240 (UK and Ireland) management override of controls is a presumed significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions.

The key judgments in the financial statements are those which we have selected as significant risk or areas of audit focus; valuation of the Council's properties, pension liability, infrastructure assets and capital expenditure. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Council's results throughout the year did project both positive and negative divergences from budgets in operational areas. This was closely monitored and whilst some areas projected overspends, the underlying reasons were understood.
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used data analytics software to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

Accounting estimates

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council's estate and the valuation of the pension liability, as discussed elsewhere in this report.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall, the areas more subject to estimation in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

We have not identified any instances of management override of controls in relation to the specific transactions tested. We however noted instances in which journals were prepared by a senior staff member and reviewed by a junior staff member, see detailed finding under page 18.

Other areas of audit focus

Valuation of infrastructure assets

Background

Infrastructure assets are inalienable assets, expenditure on which is only recovered by continued use of the asset created. They include carriageways, structures, street lighting, street furniture and traffic management systems, and are measured in the accounting code at historical cost.

The accounting code requires that where a component of an asset is replaced:
• the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and
• the gross costs and accumulated depreciation of the old component should be derecognised to avoid double counting.

Auditors have identified that local authorities in the UK have not been properly accounting for infrastructure assets since the move to IFRS in 2020/21 due to information deficits.

CIPFA/LASAAC attempted to resolve the issues and undertook an urgent consultation on temporary changes to the code. However, it was unable to agree an approach that addressed the concerns of all stakeholders whilst also supporting high quality financial reporting.

This has resulted in the Department for Levelling Up, Housing and Communities (DLUHC) agreeing to provide a statutory instrument, which would help resolve some of the issues identified, whilst a permanent solution was being sought. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022, was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. The main purpose of the statutory instrument was to allow local authorities to make the assumption that any infrastructure asset additions recognised are replacing components that have been fully depreciated. The Statutory Instrument (SI) is applicable to all financial years up to 2024/25, where the audit certificate for the authority is still open.

Risk identified

The following concerns were raised by local authority auditors in relation to the treatment of infrastructure assets in local authority statement of accounts:
• Derecognition of components – concerns were raised that local authorities were not derecognising infrastructure assets after they had been replaced by additions. This was due to the derecognition provisions of the Code being difficult for local authorities to apply for infrastructure assets, as authorities do not have detailed records of infrastructure asset components in place.

• Gross book value and accumulated depreciation – as a result of local authorities not disposing of infrastructure asset components when they were replaced, the gross book value and accumulated depreciation balances included in the property, plant and equipment disclosure notes for infrastructure assets are overstated. This is because components that are no longer in use are still included in both balances.

• Infrastructure asset disaggregation – concerns were raised that the records held by some local authorities do not sufficiently disaggregate the infrastructure asset balance within the authorities fixed asset register, so as to allow both the authority and auditors, to understand the actual types of infrastructure assets held by the authority. For example, it was noted that a number of authorities nationally include one line entitled “infrastructure assets” in the fixed asset register, with no further information available regarding what is included in the balance.

• Useful economic lives – it was identified that authorities often have limited support for the useful economic lives used in relation to infrastructure assets.

Other areas of audit focus (continued)

Valuation of infrastructure assets

Risk identified (continued)

These issues were all raised with CIPFA and the Department for Levelling Up, Housing and Communities (DLUHC). We believe the above concerns to be relevant to the Council, as it has a net book value of £5.2 m (2020/21: £4.9m) in relation to infrastructure assets as at year-end. The current year net book value reflected above is before the adjustment made in relation to the application of the new guidance and statutory instrument.

Deloitte response

We have completed the following procedures:

- On derecognition of components: The Statutory Instrument (hereafter refer to as 'SI') stipulated where a local authority replaces a component of an infrastructure asset, for the purposes of determining the carrying amount to be derecognised in respect of that component ("the relevant amount") the local authority shall either, determine the relevant amount as nil; or calculate the relevant amount in accordance with the accounting practices identified in regulation 31.
- Gross book value and accumulated depreciation: The audit team has reviewed the infrastructure assets disclosure included in the Council's revised financial statements.
- Infrastructure Asset disaggregation: The audit team has challenged the disaggregation of infrastructure assets as reflected on the fixed asset register and concluded that the disaggregation is reasonable. The audit team reviewed and challenged the determination of the useful economic lives applied to infrastructure assets by the Council and confirmed the rationale for the determination of the useful economic lives to be appropriately supported and reasonable in light of information reviewed.

Conclusion

Following the conclusions of the work performed as detailed above, we are satisfied that infrastructure assets are fairly stated with no material misstatements identified.

Other matters

Defined benefits pension scheme

Background

The Council participates in the Local Government Pension Scheme, administered by Essex County Council.

As at 31 March 2022, the Council had a £2.7m pension gain on its balance sheet. Pension assumptions are a complex and judgemental area, and the calculation is reliant on accurate membership data provided to the actuary.

We have thus identified this as an other area of audit focus to report to the Audit & Governance Committee as a key area of management judgement.

For the LGPS (Local Government Pension Scheme), it is possible to identify Epping Forest District Council portion of the assets and liabilities, and the Local Authority Accounting Code of Practice requires full disclosure of the Council's share of the LGPS within its financial statements. There are a large number of judgments inherent in the calculation of the scheme liability, including future inflation rates and appropriate discount rates. Small movements in these rates can have a material impact. Additionally, there are judgements implicit in allocating Epping Forest District Council's share of the assets of the scheme.

Deloitte response

We obtained a copy of the actuarial report produced by Barnett Waddingham, the scheme actuary, and agreed the disclosures to notes in the accounts.

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by the actuary, including benchmarking as shown the table opposite.
- We are reviewing the assurance obtained from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements for the year.
- We reviewed the disclosures within the accounts against the Code to confirm compliance thereof.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.60%	2.60 - 2.85%	Reasonable
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.8%	2.50-2.90%	Reasonable
Salary increase (% p.a.) (over CPI inflation)	4.20%	Council specific, represents real salary increase of 1% above CPI	Reasonable
Pension increase on payment (% p.a.)	3.20%	3.00 - 3.30%	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21	23	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.50	24.70	Reasonable

Deloitte view

We have not identified any material misstatements.

Other matters (continued)

Group Accounts

Component	Significant to group	Scope
Epping Forest District Council	Yes	Scope B
Qualis	Yes	Scope A

Scope A:

Specific audit procedures have been performed by the audit team on one or more account balances which are significant to the group to group materiality. A full audit of the subsidiary companies have been performed by the subsidiary auditor.

Scope B:

Full scope audit procedures have been performed by audit team to a materiality appropriate to the group and individual financial statements of the entity.

Conclusion Our audit of the group accounts is finalised, and we have not identified any material misstatements.

Value for money

Our work is reported in our Auditor's Annual Report

Value for Money requirements

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements.
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising.

Work performed to obtain an understanding of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources

As part of our risk assessment, we have reviewed the summary of Value for Money arrangements prepared by the Council, reviewed supporting documentation on arrangements, and held follow up interviews on areas where additional information was required.

In addition, we have:

- reviewed of the Council's Annual Governance Statement;
- reviewed internal audit reports through the year and the Head of Internal Audit Opinion
- considered issues identified through our other audit and assurance work;
- considered the Council's financial performance and management throughout 2020/21; and

We have also obtained an understanding of:

- The changes in governance processes as a result of Covid-19;
- The changes to control processes as a result of Covid-19; and
- The processes and controls put in place in order to deal with the Covid-19 business support schemes.

Value for money (continued)

Our work is reported in our Auditor’s Annual Report

Status of our work and significant weaknesses

We will combine Our Value for Money work for the financial year ended 31 March 2022 and financial year ended 31 March 2023. Our VfM work for the year ended 31 March 2022 is complete while that relating to financial year ended 31 March 2023 is ongoing. We will issue a combined Auditor’s Annual Report for both years.

As at this report date, we have not identified any significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have no matters to report by exception in our financial statement audit opinion.

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the financial statements

Our audit is being finalised. We envisage issuing an unmodified audit opinion.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in other matter paragraph.

Value for money by exception

Our opinion will note that our Value for Money work is in progress and will be reported in our Auditor's Annual Report.

We have no matters to report by exception in our financial statement audit opinion.

Irregularities and Fraud

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019.

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; - Basis of preparation; and. - Future sustainability and risks to this posed by Covid-19.	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit and is not otherwise misleading. We note that the Narrative Report was updated for the implications of Covid-19.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review.

Control observations

We note that there has been some improvement in the preparation of the financial statements and the related processes despite the disruptions caused by the pandemic. However, the improvement plan that management are implementing is still ongoing.

Area	Observation	Deloitte Recommendation	Management response and remediation plan
Preparation of Valuation reports	Our real estate specialist team have identified areas for improvement to enhance reporting on the Councils valuation of assets: • Beacon properties be inspected internally (where possible for void/vacant properties) and externally on an annual basis. • Documentary records are kept of discussions between the Council and their external valuer in the future. • Judgements need to clearly articulated and there should be inclusion of valuation reasoning and rationale within the valuation report. • Enhancement of the valuation report on sections such as valuation rationale and reasoning to support conclusions. • The Valuer has not confirmed the Council's Componentisation Policy and how the relevant assets should be componentised. In addition to providing the weighted average remaining useful life, the valuer should provide the estimated remaining useful life of each of the major components in the future. • Missing information on sales details – Recommendation that the Valuer provides further detail around their central database and is able to refer to notes from its agents call/screenshots, from listing pages as evidence. • The Valuer to clearly outline their methodology and how they have considered the garages relative to the comparable information they have sourced to arrive at their Beacon value and subsequent value of the variant's values, along with providing evidence of the yields used within their calculations. The observations above are not expected to have a material impact on the overall valuation but should be addressed as part of instructing the valuers in future years.	Management should communicate and discuss the noted insights with their valuers to enhance the valuation process.	We will take the recommendation into consideration and request that the valuers include the more detailed information. The next valuation will be for 2023/24.

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Control observations – Current period audit (continued)

Area	Observation	Deloitte recommendation	Management response and remediation plan
Long overdue reconciling items	We identified items that were included in the bank reconciliation that date back to FY19/20. These items relate to £5,000 worth of adjustments posted as a result of a difference between the amount recognised as collected within 'IZETTLE' (a payment system used at the Museum), and the amount actually banked. This system is now obsolete and no longer used.	We recommend management to process the necessary journal entries to reconcile the long overdue reconciling items.	Agreed. The necessary journal entries were posted in 2022-23 which enabled the reconciliation.
Segregation of duties	When reviewing the journal preparation and review process, we noted instances in which journals were prepared by senior staff members and then reviewed and approved by junior staff members. Management attributed this to high staff turnover and indicated that, in those instances, the senior staff member was the only experienced member capable of preparing the journals, leaving the junior members with the role of approving them. In our review of the bank reconciliation process, we were not provided with evidence of preparer and reviewer sign-offs for sampled bank reconciliations. Management indicated that they were aware of this deficiency in the bank reconciliation process and were planning to implement a summary page for bank reconciliations going forward to evidence preparation and review.	Procedures should be implemented to ensure preparation and review is undertaken by appropriate individuals in a timely manner and is clearly documented. This is essential for the operating effectiveness of these segregation of duties controls.	The recommendation will be implemented as advised.
Related party	The Council has a process of obtaining declaration of interest forms from Councillors and Officers at the year-end and maintain a central register of interest declared by individuals. As part of our related party work and procedures performed, we noted four former councillors who had not submitted their declaration of interest forms even though they held post during the year 2021/22. We did not receive any evidence that EFDC chased for their outstanding returns. We also noted five councillors who did not submit their declaration of interest forms. EFDC had sent email reminders of deadline for submission and requested them to submit their outstanding returns. However, those returns remained outstanding as of May 2022 and no follow up or action was taken thereafter to maintain complete and accurate register of interest from all related parties.	The Council should review the process of obtaining declaration of interest returns, ensuring any outstanding returns are formally followed up with a view to attaining 100% compliance.	We note and support the recommendation and will consider incorporating the feedback in our future communications with members on this matter. However, extensive efforts have been made in the past which have been - to a large extent - successful in substantially increasing the member response rate (84% in 2021-22).

Control observations – Current period audit (continued)

Area	Observation	Deloitte recommendation	Management response and remediation plan
Housing Revenue Authority (HRA) recharges and bad debt written policies	We noted that the Council does not have documented policies relating to the accounting of HRA recharges and bad debts. The HRA recharge system is largely judgemental with no formal guidance on how much, or on what basis/principal management should be making the recharge. For bad debts provisions, the Council used year on year calculated percentage rates. We also note that some of the prior year bad debt provision workings were not available upon request due to the Council personnel who prepared workings no longer employed by the Council. Whilst our review and calculations did not highlight any material concerns, the subjective nature of HRA recharges and bad debt provision exposes the Council to the risk of biases in determination of amounts to recognise in a financial year.	A formal policy should be developed to guide the accounting of HRA recharges and bad debts.	The recommendation will be considered in line with good practice.
Asset verification	We could not verify the existence of 2 assets included in the fixed asset register: 1. Riverbank works with an NBV value of £224k; and 2. HRA infrastructure assets 11/12 with an NBV value of £120k. Based on discussions with management, these assets were historical assets which were added on an old finance system; hence they are not linked to specific properties.	We recommend that management performs a physical asset verification for assets included in the fixed asset register.	A rolling programme of physical verification checks will be considered.

Control observations – Prior period audit

During the course of prior period audit, we identified internal control findings which we have summarised below for information along with an update based on our 2021/22 audit.

Area	Observation	Status
Preparation of Valuation reports	Our real estate specialist team have identified areas for improvement to enhance reporting on the Councils valuation of assets: • The Councils external valuers report provided is consistent with the minimum reporting requirements of the RICS Valuation Standards, although lacks detail as to valuation rationale and reasoning to support the conclusions on value which has necessitated a number of clarification questions being raised. • The valuation report is not clear as to the diligence undertaken on valuation inputs when sourced from the Council. This should be addressed in future years to ensure clarity. • We observed in our selected assets review that limited evidence was presented by the valuer with limited rationale for the valuation inputs adopted. It is accepted that the valuer may need to apply judgement however such judgements should be more clearly articulated with valuation reasoning and rationale to provide greater clarity in line with the RICS Valuation Standards. • There is no commentary regarding how the value and nature of the portfolio has changed year-on-year to assist the reviewer. A summary outlining sales, demolitions and additions should be in future years. • There is still an element of ambiguity in respect of the development land valuations. Our recommendation from previous years – providing the supporting information regarding the proposed tenure for the affordable accommodation, the valuation methodology adopted or the source of the build cost assumptions – have not been included within the report. • The DVS should clearly outline their methodology and how they have considered the garages relative to the comparable information they have sourced to arrive at their Beacon value and subsequent value of the variant's values. The observations above are not expected to have a material impact on the overall valuation but should be addressed as part of instructing the valuers in future years.	Open. Noted comments raised in the year under audit.
Failure to use CIPFA disclosure checklist	We noted that the Authority had not made use of the Chartered Institute of Public Finance and Accountancy (CIPFA) disclosure checklist (the 'checklist') for the financial year ended 31 March 2022. This checklist is helpful in identifying reporting requirements introduced in the then financial year and is useful in cross referencing to the code of practice on local authority. Further, the checklist helps in identifying any departures from the code and its useful in ensuring that material departures are adequately disclosed while immaterial disclosures are excluded where necessary.	Open. Checklist use has not been implemented in the year under audit.

Control observations – Prior period audit

During the course of prior period audit, we identified internal control findings which we have summarised below for information along with an update based on our 2021/22 audit.

Area	Observation	Status
Review, approval of working paper and updating of accounts	A number of key working papers and reconciliations provided by management in the first instance needed improvement as they did not reconcile to the trial balance or contain the required level of detail. Whilst we note that in most instances subsequent workings have been provided by management which are correct, we recommend that a process of review and approval of all key working papers is embedded in the year-end process to implement an appropriate level of quality control. The working papers provided audit were of a higher quality compared to the 2019/20 audit. However, improvements are still required in this area. We noted several instances where management was reluctant to correct noted misstatements in the financial statements contributing to delays in the finalisation of the audit process.	Ongoing. Noted improvement and management responsiveness in the year under audit.
Infrastructure assets	We challenged Management judgement on classification of items as Infrastructure assets (IA). We noted two categories of Assets included as IA that did not meet the definition of IA.	Open. Reclassification adjustments not processed in the year under audit.
Depreciation of fixed assets	From the work done, we noted 13 assets whose depreciation had not been calculated since inclusion into the Fixed Asset Register (FAR). Upon further review, we noted that the isolated items with a total depreciation amount of £73,189 had not been effected since inclusion in the FAR. We noted that the Capex system was not calculating the depreciation for these specific assets as it had not been instructed to by ticking off the depreciation box. We however note that the amounts associated with the assets is not material to the financial statements.	Open. Depreciation of the noted items was not corrected in the year under audit. Management indicated that corrections were processed the year ended 31 March 2023.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit & Governance Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Current status of our work on key audit judgements and our observations on the quality of your Statement of Accounts and Narrative Report;
- Our internal control observations; and.
- Other insights we have identified to the date of issuing our report.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit & Governance Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Birmingham| 21 March 2024

Appendices

Audit adjustments

Under UK auditing standards (ISA (UK) 260) we are required to provide a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial' which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As mentioned earlier within the report, details of all adjustments greater than £111k are shown below:

		Debit/(credit) CIES	Debit/(credit) in net assets	Debit/(credit) reserves	If applicable, control deficiency identified
Uncorrected audit differences		**£m**	**£m**	**£m**	
As per the IAS19 Pension Fund Auditor's Report, contributions per IAS19 data and the contribution schedule provided by the Council differ by £0.272m	[1]	(0.272)	0.272		No
Existence of two historical assets, which were on the asset register from the old finance system could not be verified, hence not linked to specific properties.	[2]	0.344	(0.344)		Yes
Total		**(0.072)**	**(0.072)**		
Corrected misstatements					
Incorrect reversing journals of prior year grant resulted in additional revenue recognition – Grant income (Factual error)	[3]	0.507			No
Incorrect reversing journals of prior year grant resulted in additional revenue recognition – Grant income (Factual error)	[3]	(0.507)			No

[1] These finding has also been identified by the Pension Fund Auditor of Essex County Council Pension Fund. This difference relates to recognised timing differences between payroll and the pension scheme.

[2] Assets relate to Riverbank Works - £224k and HRA Infrastructure Works 11/12 - £120k, where management was not able to verify the location. The projected misstatement is £664k.

[3] Incorrect reversing journals were posted in current year for prior year grants (Wet Pub Grant, LRSG and Phase 1 Business Grant) which were fully expensed and resulted in additional revenue recognition in current year. Net effect on CIES is nil.

The uncorrected misstatements are not material and do not have a material impact on the accounts

Audit adjustments (continued)

Disclosure misstatements

The following disclosure misstatements have been identified and corrected up to the date of this report.

	Disclosure misstatements
1.	Disclosure: Local Council Tax Support scheme grant of £135k was recognised within New Homes Bonus. Both grants will be separately disclosed within 'Note 27 Grants and Contribution'. There is no accounting impact.
2.	Disclosure: Covid-19 Grant amount of £196k was classified as non-Covid grant. This will not impact 'Note 27 Grants & Contribution' since Covid-19 grants are not separately disclosed however, Financial Statement 'Narrative' will change as a result. There is no accounting impact.
3.	Disclosure: Termination benefit was incorrectly disclosed at £120k within Financial Statement note 25 which should be £433k. There is no accounting impact.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit & Governance Committee for the year ending 31 March 2022 in our final report to the Audit & Governance Committee.
Non-audit fees	There are no non-audit fees.
Independence monitoring	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

	2021/22 £	2020/21 £
Financial statement [1]	49,797	49,797
Additional fees – previously proposed [2]	57,500	70,200
Additional fee following completion [3]	TBC	35,162
Total audit fees	**107,297**	**155,159**

[1] The fee reflected here is the scale fee.

[2] Additional fees proposed (letter dated 30 July 2021) to reflect increased costs for the Authority's audit, change in scope for Value for Money, Impact of Covid 19 and transition to consolidated accounts. The majority of these are expected to be recurring in 21/22.

[3] 20/21 – Following completion of our audit, additional input has been required in a range of areas including Pensions valuation, technical accounting issues, quality and preparation challenges and materiality change. 21/22 – Additional input will be confirmed following completion of the audit.

In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we will discuss the final position with the Council on completion of the 2021/22 audit.

All additional fees are subject to agreement with PSAA.

Our other responsibilities explained

Fraud responsibilities and representations

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council and its group.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning, we identified the, Property valuations, revenue expenditure incorrectly capitalised and management override of controls as a significant audit risk.

During course of our audit, we have had discussions with management and those charged with governance including the Head of Internal Audit.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No significant concerns have been identified from our work

Deloitte.