

Supplementary Committee Agenda



**Epping Forest
District Council**

Audit and Governance Committee Thursday, 24th September, 2009

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

Time: 7.00 pm

Democratic Services: Gary Woodhall
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14. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2008/09 (Pages 3 - 22)

(External Auditor) International Standard on Auditing 260 requires the External Auditor to report to those charged with governance certain matters before they give an opinion on the Statutory Statement of Accounts. The External Auditor has indicated that their audit of the Council's Statutory Statement of Accounts for 2008/09 is nearly complete and that they wish to present their ISA260 report to this meeting.

A final version of this report will be circulated before the meeting, and the External Auditor will be in attendance to present the report.

15. STATUTORY STATEMENT OF ACCOUNTS 2008/09 (Pages 23 - 26)

(Director of Finance & ICT) To consider the attached report (AGC-012-2009/10).

16. EXCLUSION OF PUBLIC AND PRESS

Exclusion:

To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
17	Review of Extraordinary Council Meeting – 17 August 2009	1 & 4

The Local Government (Access to Information) (Variation) Order 2006, which came

into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Confidential Items Commencement:

Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

- (1) All business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest.
- (2) At the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press.
- (3) Any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers:

Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

- (a) disclose any facts or matters on which the report or an important part of the report is based; and
- (b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

17. REVIEW OF EXTRAORDINARY COUNCIL MEETING - 17 AUGUST 2009 (Pages 27 - 30)

(Director of Corporate Support Services) To consider the attached report (AGC-013-2009/10).



Accountants &
business advisers

Epping Forest District Council

Annual Governance Report 2008/09

September 2009

DRAFT

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

1 Executive summary

- 1.1 We report to you in accordance with the provisions of International Auditing Standard 260, which requires us to report to “those charged with governance”, prior to issuing our opinion on the financial statements and giving our conclusion on the adequacy of your arrangements for securing economy, efficiency and effectiveness in your use of resources (our VFM conclusion).

Findings and conclusions

- 1.2 A summary of audit findings and conclusions is included in the table below:

Area of audit	Findings & Conclusion
Accounts	
Key financial systems	The key financial systems are adequate as a basis for preparing the financial statements and no significant control weaknesses were identified that impacted on our opinion.
Financial statements	An error of £1,048,074 was identified as a result of our audit work in respect of impairment of the Council's housing stock. This is individually material but when aggregated with other errors the net impact on the impairment figure was less than material. This has been corrected. Also, a number of non-trivial, but not material, errors have been identified and corrected. Overall, the net impact of the corrections made to the financial statements, as a result of the audit, is to increase the reported deficit by £721,464, which is below our materiality level. Some areas of work are still outstanding at the time of drafting this report. Should these result in any significant issues, we will give a verbal update to Members at the Audit Committee. Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified opinion on the financial statements.
Use of resources	
Use of resources assessment	Our assessment for use of resources is that the Council is performing adequately in respect of managing finances, governing the business and managing resources.
Data Quality	Management arrangements to ensure the quality of reported performance information are considered adequate.
VFM conclusion	We anticipate issuing an unqualified value for money conclusion.

Acknowledgement

- 1.3 We would like to thank the staff of the Council for the co-operation and assistance provided to us during the audit.

2 Introduction

- 2.1 This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
- 2.2 Our report is presented to Members in accordance with the provisions of International Auditing Standard 260 ("ISA 260") which requires us to report key findings from the audit to "those charged with governance", prior to issuing our opinion on the financial statements.

Findings

- 2.3 Detailed recommendations in response to the key findings identified by our audit are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and responses are included in the action plan where appropriate.
- 2.4 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have not restated recommendations already made by Internal Audit.

Independence

- 2.5 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditor and that our independence declaration, included in the Annual Audit and Inspection Plan 2008/09, has remained valid throughout the period of the audit.

3 Accounts

Requirements

- 3.1 We are required to provide an opinion on whether your financial statements present fairly the financial position of the Council and its income and expenditure for the year, and whether they have been prepared properly in accordance with appropriate legislation.
- 3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the accounts are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.
- 3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.
- 3.4 We apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.
- 3.5 We set a triviality level of £48,000 for the 2008/09 accounts audit and have not reported to you any matters arising below this level.

Accounts risks

- 3.6 The findings from our review of accounts risks and matters of emphasis identified in our audit planning are summarised as follows:

Risk area	Overall conclusion
Significant audit risks	
Academy system implementation	<p>Internal Audit undertook a review and carried out testing on the migration from the Orbis system to the Academy system. No significant issues were identified.</p> <p>Internal Audit also carried out testing of the controls over the processing of housing and council tax benefits. Their sample sizes were considered to be adequate but only covered the controls in place during the operation of the Orbis system, the controls in operation since implementation of the Academy system in February 2009 had not been reviewed. We therefore undertook this testing.</p> <p>A lapse in controls was identified around the 5% checks performed by senior benefits staff on new claims. This was found not to be effective between April and September 2008. Assurance over the accuracy of benefit expenditure has been taken from the results of our benefits under testing on the Housing and Council Tax Benefit Subsidy (BEN01) grant claim. We concluded that benefit expenditure recorded in the accounts is materially accurate.</p>
Property management system implementation	<p>A specific test was carried out to review the implementation of the new system. Due to difficulties in finalising the asset data the new system had not been implemented at the time the accounts were signed.</p>

Risk area	Overall conclusion
Council dwelling property numbers	It was identified in the prior year that the number of properties used to undertake the revaluation of housing stock differed significantly from the Council's records. Further work was being undertaken by the Council in 2008/09 to review the accuracy of the Council's records and reconcile them to the Valuer's list. We reviewed and tested the Council's reconciliation, and the corrective adjustment that was made to bring the financial statements into line with the underlying records, as well as undertaking extended substantive testing to verify the ownership of specific properties. As a result we identified an error in the accounts of £1,048,074, which was not material to the balance sheet but had a resultant effect on the impairment charge on housing stock, which is material to the Income and Expenditure Account. More detail is included in paragraphs 3.15 to 3.18 below.
Matters of audit emphasis	
Investment in Icelandic banks	<p>Additional testing was carried out to ensure that the disclosures in respect of the Council's two Heritable Bank investments, totalling £2.5m, were in accordance with guidance provided by CIPFA. This was predominately carried out in advance of the approval of the accounts. No errors were identified from the procedures carried out and we concluded that the investment, and its impairment, had been appropriately accounted for. Updated guidance on the impairment of these investments was issued by CIPFA in September, but the impact on the investment return and accounts was trivial so no adjustments were made.</p> <p>We also considered the impact of the investments on the overall financial standing of the Council and concluded that in light of the anticipated 80% recovery rate projected by the bank's Administrators, and the combined General Fund and Earmarked Reserves Balances of £17m, the impact is not significant.</p>
Income reconciliations	Additional testing was carried out to ensure that material income streams had been appropriately reconciled at the year end. We concluded that material income streams were appropriately reconciled.
Bad debt provision	Greater scrutiny of the bad debt provision methodology was carried out to ensure that the bad debt provision was appropriate given the current economic climate. We concluded that the bad debt provision was appropriate in the context of the current economic climate and the Council's recorded recovery rates.

Reporting to those charged with governance

3.7 In accordance with the requirements of International Standard on Auditing 260 ("ISA 260"), auditors are required to communicate relevant matters relating to the audit with those charged with governance. In particular we are required to report:

- qualitative aspects of **accounting practices and financial reporting**
- final draft **letter of representation** to be agreed by management and those charged with governance
- **uncorrected misstatements**
- expected modifications to the **audit report**
- material weaknesses in **accounting and internal control systems** identified during our work

- **matters required to be reported by other auditing standards**
- any **other audit matters of governance interest**.

3.8 Our comments in each of these areas are set out below:

Accounting practices and financial reporting

Application of accounting policies

3.9 The key changes introduced by the 2008 SORP were:

- the replacement of deferred charges with revenue expenditure funded from capital under statute
- the prohibition of revaluing fixed assets on disposal
- the clarification of Financial Reporting Standards 25, 26 and 29 relating to the accounting treatment for financial instruments

3.10 The Council responded satisfactorily to these key changes with only one minor error identified in that debtors and creditors had been erroneously excluded from the financial instruments note in the financial statements. This has been corrected.

The accounts preparation process

3.11 The draft financial statements were approved by Members on 30 June 2009 which was in line with the statutory deadline. As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of working papers and draft accounts on the first day of the audit. Improvements were noted with the quality of the working paper file provided this year, which led to a reduction in the number of audit queries. However, there is still further scope for improvement and this will be fully discussed with officers at the audit debrief meeting.

Testing of transactions and balances

3.12 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. A number of amendments were made to the draft accounts as a result of our audit findings, the most significant of which were in respect of:

- Investment property impairment
- Valuation and impairment of housing stock
- Garage impairment
- Housing and council tax benefit subsidy and National Non Domestic Rates (NNDR) income.

3.13 These matters are explained in the following paragraphs in the order set out above:

Investment property impairment

3.14 The Council had a number of investment properties which were impaired by £657,000 as at 1st April 2008. The Council had erroneously accounted for this impairment through the revaluation reserve and capital adjustment account, netting off the impairment charge against the revaluation. As these assets had not previously been revalued, the correct treatment would be to account for the impairment through the Income and Expenditure Account. This is a non-trivial but not material error that has been corrected.

Valuation and impairment of housing stock

- 3.15 The Council's policy on revaluation provides for a desk top revaluation of housing stock (including garages) to be completed annually by the District Valuer. This revaluation is based upon the housing figure notified by the Council in 2005, adjusted each year for disposals. The 2007/08 audit identified a mismatch between the number of houses and garages used in the District Valuer's revaluation and the figures disclosed in the accounts.
- 3.16 These were corrected in the prior year accounts and in light of additional information as at 1 April 2008 the Council attempted to improve the position as at the 31 March 2008 to ensure the correct revaluation was being included in the revaluation reserve.
- 3.17 The Council's detailed review of the housing stock identified a balance of £1,863,216 in respect of 25 properties, which the Council no longer owned but had been included in the District Valuer's valuation as at 1 April 2008. This adjustment was made in the draft accounts, in order to realign the financial statements with the underlying records of housing stock. No prior period adjustment was made as the amount was not material in the context of the balance sheet.
- 3.18 However, our audit testing identified that this adjustment had been misstated and the reconciling difference between the Valuer's valuation and the audited underlying records of the Council was only £815,142, in respect of 18 properties that the Council no longer owned. This therefore meant that a correcting adjustment of £1,048,074 was required. This adjustment had a resultant effect on the impairment charge made to the Income and Expenditure Account which was understated by the same amount. This error is not material to the balance sheet but is material in the context of the Income and Expenditure Account and has been corrected. The charge to the Income and Expenditure account is reversed out through the Statement of Movement on the General Fund Balance and does not impact on the General Fund Balance carried forward.

Garage impairment

- 3.19 The garage impairment value had been incorrectly calculated due to presence of an error in the formula in the calculations spreadsheet that resulted in double counting. Consequently, the impairment was overstated by £737,752. This is a non-trivial but not material error that has been corrected.

Housing and council tax benefit subsidy and NNDR income

- 3.20 The housing and council tax benefit subsidy income recorded in the financial statements was understated by £246,000 due to the incorrect processing of the adjustments arising from the audit of the 2007/08 subsidy claim form, with an associated impact on year end creditors. Similarly, a £140,790 adjustment to the NNDR claim for 2007/08 had not been adjusted in the Council's ledger, resulting in an understatement of income by this amount. These errors are non-trivial but not material error and have been corrected.

Adequacy of disclosures

- 3.21 We identified a small number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the SORP. These have been amended by the Council.
- 3.22 More significantly, the Council did not include disclosure of the net assets employed in trading operations within the trading operations notes to the financial statements. This has been amended by the Council.

Letter of representation

- 3.23 The draft letter of representation has been attached as Appendix B. We do not anticipate any changes being required before providing our opinion on the financial statements.

Uncorrected misstatements

- 3.24 There were no uncorrected misstatements. Overall, the net impact of the corrections made to the financial statements as a result of the audit is to increase the reported deficit by £721,464, which is below our materiality level.

Audit report

- 3.25 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the accounts:
- Receipt of the pension fund auditor's letter of assurance
 - Receipt of some outstanding third party investment and bank confirmation letters
 - Clearance of Manager and Partner review points.
- 3.26 We will provide a verbal update on these outstanding issues at the Audit & Governance Committee.
- 3.27 We are also required to give a certificate of completion of the audit and the giving of it is dependent upon there being no relevant matters arising which would prevent this.

Accounting and internal control systems

- 3.28 We have reviewed the key financial systems, which contribute to the preparation of materially accurate financial statements, to assess the extent to which we can place reliance on them for this purpose. In carrying out this work we consider:
- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the financial statements
 - the robustness of your accounts preparation processes.
- 3.29 In assessing the reliability of systems as a basis for providing financial information that is free from material misstatement, we prepared systems notes for each financial system and we evaluated the controls within those systems, with particular focus on assessing whether the controls in place to mitigate significant risks are suitably designed and operating as intended to meet their objective.
- 3.30 Your key financial systems are:
- Main accounting
 - Cash and bank
 - Payments and creditors
 - Non-contracting income and debtors
 - Payroll and employment costs
 - Information technology
 - Council tax
 - Housing and council tax benefits
 - NNDR
 - Housing rents income
 - Investments and investment income
- 3.31 We also have a responsibility to give specific consideration to the potential risk of material misstatement of your financial statements due to fraud and error, including the risk of fraudulent financial reporting. This requires us to:
- review internal controls that are designed to prevent, or detect and correct, misstatements in the accounts
 - review the arrangements for preparing the financial statements
 - select and test transactions and balances, including review of significant balances against expectations and substantiate individual items

- assess the significant estimates and judgements made by officers in preparing the accounts
 - consider the adequacy of presentation and disclosures included in the financial statements.
- 3.32 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.
- 3.33 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:
- reviewed Internal Audit's working papers and reports
 - considered the robustness of the key financial systems on the evidence of this work
 - re-performed Internal Audit's evaluation of controls and a sample of their testing of the effectiveness of controls, to ensure that their conclusions are soundly based.
- 3.34 In order to identify the fraud risks, and the controls you have put in place to mitigate those risks, we have:
- discussed your anti fraud and corruption arrangements with officers, and those charged with governance
 - considered the extent to which the work of Internal Audit is designed to detect material misstatements in the accounts arising through fraud
 - made enquiries regarding instances of actual fraud you have identified.
- 3.35 We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls.

Conclusions

- 3.36 As a result of our work, we have concluded that the key financial systems are generally adequate as a basis for preparing the financial statements and no significant control weaknesses were identified as a result of our audit. We have included in Appendix A any recommendations arising from issues identified during our work.
- 3.37 We did not identify any significant fraud risks that affected our audit programme for the financial statements.

Matters required to be reported by other auditing standards

- 3.38 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance.

Other audit matters of governance interest

Annual governance statement

- 3.39 The Council has a responsibility to publish a Governance Statement, including the outcome of a review of its effectiveness, with its 2008/09 financial statements.
- 3.40 We requested some amendments to the draft AGS to remove some information relating to the 2007/08 Use of Resources assessment which, whilst it was the only available information at the time of drafting the AGS, was considered to be misleading. This is because it has been superseded by the 2008/09 assessment, reported in section 4 of this report, which was completed on a different basis and conflicts with the scores currently included in the AGS.

- 3.41 We also recommended that the content be streamlined by removal of extensive narrative around a broad range of general improvements made in 2008/09. This type of narrative is outside the scope of the AGS which should focus on the governance framework, the effectiveness of its operation during the year and action being taken to address significant weaknesses arising from the effectiveness review of the governance framework undertaken during the year.
- 3.42 All of these changes have been made and we are satisfied that the revised AGS, and the supporting effectiveness review that was undertaken, is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

International Financial Reporting Standards

- 3.43 International Financial Reporting Standards (FRSs) will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. Entities adopting IFRSs need to commence work to restate the balance sheet two years' prior to the first year of reporting, that being a restatement of the balance sheet at 31 March 2009.
- 3.44 Management should prepare for the adoption of IFRSs based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to restate the current financial statements. The Council has not yet reviewed the potential impact of the change to IFRSs on their accounts and should develop a formal timetable and detailed implementation plan as soon as possible.

4 Use of resources

- 4.1 The Audit Commission's Code of Audit Practice ('the Code') requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (sometimes referred to as value for money – 'VFM') and to reach and report on a conclusion on whether proper arrangements have been made. We refer to this as our VFM conclusion. The conclusion is included in the Auditors' Report within the financial statements.
- 4.2 We are also required by the Code to undertake a use of resources assessment, the results of which are used to inform our VFM conclusion. The conclusion also draws on the results of local risk based audit, as well as consideration of the Council's processes underpinning its review of the effectiveness of its controls as described in the Annual Governance Statement.

Use of resources risks

- 4.3 The findings from our review of use of resources risks identified in our audit plan are summarised as follows:

Risk area	Findings and Conclusion
<p>Health inequalities</p>	<p>Our objective for 2008/09 was to monitor LSP-level action planning in response to our Essex-wide primary review in 2007/08, reported in March 2008. We have met with officers to discuss progress and to obtain an understanding of high-level actions already being undertaken.</p> <p>We are satisfied that the Council and LSP are making useful progress in this area, with the work within 2008/09 primarily focusing on review and analysis of arrangements that had been in place and progressing with constitutional changes to secure improvements from 2009/10.</p> <p>We will be undertaking a full scale follow-up in early 2010 when process changes and impact and outcomes will be assessed in more detail.</p>

Use of resources assessment

- 4.4 For 2008/09 the Audit Commission redesigned the overall framework for use of resources assessments. The new assessment considers how well organisations are managing and using their resources to deliver value for money and better, sustainable outcomes for local people. The assessment comprises three themes, underpinned by ten Key Lines of Enquiry (KLOE). The themes focus on:
- Governing the business - sound and strategic financial management
 - Managing finances - strategic commissioning and good governance
 - Managing resources - management of natural resources, assets and people.
- 4.5 The new use of resources approach is more demanding than previous assessments, focusing more on value for money achievements, outputs and outcomes rather than on processes. The KLOE are therefore more strategic and are more broadly based than previously, embracing wider resource issues such as workforce planning. Consequently, the scores resultant from this year's assessment are not directly comparable to previous years' scores.
- 4.6 Each theme consists of a number of key lines of enquiry (KLOE) that form the areas of audit focus and auditors are required to score organisations against each of the KLOE. The use of resources assessment scoring mechanism is defined as follows:

Score	Judgement	Conclusion
1	Failure to meet minimum requirements	Performing inadequately
2	Meets only minimum requirements	Performing adequately
3	Exceeds minimum requirements	Performing well
4	Significantly exceeds minimum requirements	Performing excellently

4.7 The results of this work are used in forming our overall conclusion on VFM, as the KLOE for the scored use of resources assessment also form the criteria for the VFM conclusion. A score of 1 for any criterion in each of the themes will normally result in a qualification of the VFM conclusion as the result is judged inadequate.

4.8 The results of our work are set out in the table below:

Theme	Code criterion	Criterion met	2008/09 score
Managing Finances	The organisation plans its finances effectively to deliver its strategic priorities and secure sound financial health	Yes	2
	The organisation has a sound understanding of its costs and performance and achieves efficiencies in its activities	Yes	2
	The organisation's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	Yes	2
	Weighted score		2
Governing the business	The organisation commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	Yes	2
	The organisation commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	Yes	2
	The organisation promotes and demonstrates the principles and values of good governance	Yes	2
	The organisation manages its risks and maintains a sound system of internal control	Yes	2
	Weighted score		2
Managing Resources	The organisation is making effective use of natural resources	N/A	N/A
	The organisation manages its assets effectively to help deliver its strategic priorities and service needs	N/A	N/A
	The organisation plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	Yes	2
	Weighted score		2

4.9 We will issue a separate report on the detailed findings from our use of resources assessment.

Value for money conclusion

4.10 Our conclusion is that adequate arrangements are in place to secure value for money.

Appendix A: Action plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
ACCOUNTS					
Fixed assets					
<p>The housing stock numbers supplied to, and used by, the District Valuer in preparing the annual desktop revaluation of Council dwellings and garages were incorrect. This is an historical issue that has been adjusted this year to determine an appropriate baseline for future valuations.</p> <p>This will prevent future mismatches in property numbers and support production of materially accurate financial statements in future.</p>	<p>1. Provide the District Valuer a full annual analysis of housing stock each year and ensure that the number of properties valued agrees to the housing stock details.</p>	High	Agreed	Assistant Director Accountancy	March 2010
Debtors, creditors and bad debt provision					
<p>The financial statements include a debtor balance and provision for bad debts in respect of service charges to ex-council tenants that have bought the long term lease on their flat. These ex-tenants are billed an estimated charge during the year and after the year end the Council calculates the final service charges based upon the actual work carried out in the year. This results in a combination of additional charges and refunds being raised. The figure shown in the financial statements is the net of the estimated amounts to be repaid. An estimate is required because the actual charges are not worked out until the following October, some six months after the financial year end.</p> <p>To comply with the SORP and Financial reporting Standards, debtors and creditors should be accounted for gross in the financial statements.</p>	<p>2. Account for debtors and creditors separately i.e. gross, not net, in the financial statements.</p> <p>3. Review the processes for calculating the service charge debtors and creditors in order to improve the speed of finalisation and the accuracy of the entries in the financial statements.</p>	<p>Medium</p> <p>Low</p>	We will review the processes with colleagues in housing to address these issues.	Assistant Director Accountancy	March 2010

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
IFRS Implementation					
<p>In 2010/11 the Council are required to report their financial statements under IFRS rather than UK GAAP.</p> <p>The Council need to ensure they have an appropriate timetable in place to deal with the significant changes in accounting treatments and disclosures and that their systems can cope with the changes.</p>	4. Develop a formal IFRS timetable and detailed implementation plan as soon as possible.	High	This is already work in progress and will be completed shortly.	Assistant Director Accountancy	October 2009
SYSTEMS					
Information technology					
<p>The ICT department has a disaster recovery plan embedded within the overall corporate plan. During the year the disaster recovery plan was reviewed and updated but had not yet received formal approval nor been tested.</p> <p>Approval, distribution and routine testing of the plan will ensure the Council's response to any incident will be robust and able to minimise the risk of non recovery.</p>	5. Formally approve and distribute the updated disaster recovery plan and ensure it is routinely tested.	Medium	The disaster recovery plan has been approved and distributed accordingly throughout the ICT department. Arrangements to test the recovery plan will be put in place in 2009/10.	Assistant Director ICT	March 2010
Housing rents					
<p>Reconciliations are carried out by the Senior Housing Officer between the OHMs and Academy system and the OHMs and Cedar system but there is no evidence to show who has carried these out.</p> <p>This will provide an audit trail to show that the checks have been performed and that the appropriate staff member has carried out the reconciliation.</p>	6. The Senior Housing Officer should sign the reconciliations between OHM's and Academy system and the OHM's and Cedar system to show who has carried this out.	Medium	Agreed.	Senior Housing Officer	Immediate

Appendix B: Draft letter of representation

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

[24] September 2009

Dear Sirs

Financial statements of Epping Forest District Council for the year ended 31 March 2009

Representations of the Director of Finance and ICT

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

Responsibility for the financial statements

I acknowledge as the Director of Finance and ICT and s151 Officer my responsibilities for the financial statements.

Completeness of information

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that are free from misstatement, whether arising from fraud or error.

Fraud

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, councillors, regulators or others.

Compliance with law and regulations

I am not aware of any possible or actual instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the Council.

Transactions with related parties

I confirm that I have put in place appropriate arrangements to identify related party transactions.

I am satisfied that the disclosure in the financial statements of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the financial statements.

Contingent liabilities

I am not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Council that have not already been reported in the financial statements.

Pension fund assumptions

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the business. These assumptions include:

- Rate of inflation 3.3%
- Rate of increase in salaries 4.8%
- Rate of increase in pensions 3.3%
- Rate for discounting scheme liabilities 7.1%

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities and that the obligation profile for the Council is not out of line with the profile of the bonds used to determine the discount rate.

Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

Bob Palmer

Director of Finance and ICT

Representations of the Council

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

Responsibility for the financial statements

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the financial statements.

Annual Governance Statement

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

Cllr A Green
Audit Committee Chair

Signed on behalf of the Council

Appendix C: Draft audit report

Independent auditors' report to the Members of Epping Forest District Council

Opinion on the financial statements

We have audited the Authority accounting statements and related notes of Epping Forest District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Epping Forest District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Finance and ICT and auditors

The Director of Finance and ICT's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the Statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword and the Summary of Outturn. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Signature: _____ Date: _____

Name: Richard Bint
Partner on behalf of PKF (UK) LLP
London, UK

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditors' Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, we are satisfied that, in all significant respects, Epping Forest District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature: _____ Date: _____

Name: Richard Bint
Partner on behalf of PKF (UK) LLP
London, UK

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-012-2009/10.

Date of meeting: 24 September 2009.

Portfolio: Finance and Economic Development.

Subject: Statutory Statement of Accounts 2008/09.

Responsible Officer: Bob Palmer (01992 564279).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations:

That a report be submitted to the Council recommending that the amended Annual Governance Statement and the amended Statutory Statement of Accounts for 2008/09 be adopted.

Executive Summary:

The audit of the annual Statutory Statement of Accounts has revealed some errors in the Accounts previously considered by this Committee. The errors include one item that has been classified as material in terms of the Income and Expenditure Account. In these circumstances it is regarded as best practice to amend the Accounts and have them re-approved.

All Members of the Council will have the opportunity to debate the Accounts at Full Council on 29 September and part of that debate will be to consider the recommendation of this Committee.

Reasons for Proposed Decision:

The consideration of the draft Statutory Statement of Accounts falls within the Terms of Reference of this Committee. As the draft Accounts have been amended it is appropriate for them to be re-considered by this Committee. If Members are satisfied with the content of this report and the verbal responses to any questions raised, they are requested to recommend the amended draft Accounts for adoption by Full Council on 29 September.

Other Options for Action:

The Committee could decide that the Accounts should be further amended or expanded prior to them being presented to Full Council. Alternatively, the Committee could decide not to discharge this part of its terms of Reference and leave Full Council to scrutinise the amended Accounts.

Report:

1. At the 22 June meeting of the Committee considered the draft Statutory Statement of Accounts and recommended them to Full Council for approval. Full Council subsequently approved the Accounts and the audit of them is now nearly complete.

2. Where a material error is discovered the Director of Finance & ICT is required to report the amendment to this Committee. Only notification of material amendment is required and so whilst re-approving the Accounts is not compulsory it is regarded as best practice.

3. With the shortening of the timescale for the production of the Accounts, approval by Full Council is required by the end of June but historically had been by the end of September, there is less time for detailed checking. The size and complexity of the Accounts means it is difficult to get all disclosures and numbers exactly correct in the time available. The increased size and complexity is illustrated by the growth of the Accounts from 61 pages for 2006/07 to 74 pages in the draft for 2008/09. Some of the key estimations and challenges were outlined in the report that accompanied the draft accounts at the previous meeting of this Committee.

Material Amendment

4. The external auditors have advised that a material error has occurred on the Income and Expenditure Account. This error has arisen through the incorrect treatment of housing assets and the resulting impairment charge made to the Income and Expenditure Account. This error is not material in terms of the Balance Sheet and has no impact on the General Fund or Housing Revenue Account balances. However, given the need to reduce the impairment charge of £31 million by £0.9 million this is viewed as material. As such items are reversed in the Statement of Movement on General Fund Balance the surplus for the year is not effected.

Non-Trivial Amendments

5. An error was made in the impairment of investment properties. Correcting this error does not change the Balance Sheet totals or the General Fund or Housing Revenue Account balances. The movement of £657,000 is between the Capital Adjustment Account and the Revaluation Reserve.

6. A similar error was made on the impairment of garages, although as this had the opposite effect to the error in 5 above the two corrections almost off-set each other.

7. The income from housing and council tax benefit subsidy, approximately £36 million, was understated by £246,000. This error has been corrected and has the positive effect of increasing the General Fund balance.

8. Income from National Non-Domestic Rates was also understated, by £140,790, although the correction of this error does not affect the General Fund balance.

9. The external auditors also raised other points relating to disclosure requirements and the Annual Governance Statement. These points are detailed in the auditors Report to Those Charged with Governance.

10. The audit of the Accounts is nearly complete and the external auditors have indicated that they anticipate issuing an unqualified opinion on the amended Accounts before the end of September.

Resource Implications:

The Accounts set out the resource implications of the Authorities activities for 2008/09. The recommendation of the Accounts to Full Council does not in itself have any resource implications.

Legal and Governance Implications:

When the Accounts have been amended they should be re-approved, following the same process with this Committee considering them before Full Council.

Safer, Cleaner and Greener Implications:

There are no environmental implications.

Consultation Undertaken:

None.

Background Papers:

None.

Impact Assessments:

There are no equalities or risk management impacts.

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By virtue of paragraph(s) 1, 4 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

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