



Accountants &
business advisers

Epping Forest District Council

Annual Audit Letter 2009/10

Report to Members

November 2010



Local Public Services

Contents

1	Executive summary	1
2	Introduction.....	2
3	Key findings.....	3

Appendix

Reports issued in relation to the 2009/10 audit

<http://www.pkf.co.uk/>

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.

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codelocalgov.aspx>

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

1 Executive summary

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have carried out during the year.
- 1.2 We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report. We have no additional recommendations for the Council at this time.
- 1.3 We have highlighted the following emerging issues within Section 3 of this report:
- current economic climate
 - International Financial Reporting Standards.

Key findings

- 1.4 A summary of key conclusions is included in the table below:

Area	Conclusion
Financial statements	A number of misstatements were identified, and corrected, during the accounts audit, one of which was material (£25.5m). We subsequently issued an unqualified opinion on the financial statements .
Value for money conclusion	We issued an unqualified value for money conclusion .
Health inequalities	Essex public sector organisations have made good overall progress against our recommendations, particularly in consolidating strategic approaches to deal with health inequalities, working together to develop operational arrangements to deliver the strategies and improving member awareness. Within this, Epping Forest Local Strategic Partnership (One Epping Forest) has strengthened its arrangements for tackling health inequalities, particularly in the areas of joint planning and partnership working and Member awareness. Further improvements are needed, primarily in delivery, target setting and local performance monitoring, but it has a stronger base for delivery and for having an impact on health inequalities in the future than demonstrated when we carried out our previous review.
Leadership and strategic capacity of the Council	The lengthy process around the departure of a senior officer, in our view, led to the Council not making the degree of progress in its own continued improvement agenda which could otherwise have been made.

Acknowledgement

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

2 Introduction

About the Council

- 2.1 Epping Forest District Council is in south west Essex and most of the 131 square miles of the district are green and rural. The population of Epping Forest is around 123,000, with about half living close to its boundary with London and there are six main centres of population.
- 2.2 The Council collects National Non-Domestic rates on behalf of the government and council tax for its own revenue and on behalf of Essex County Council, Essex Police and Essex Fire services. It provides a range of public services to the residents of the District, including:
- Housing and Council tax benefits
 - Waste collection and street cleansing
 - Pest control and environmental health
 - Housing
 - Building regulation surveyors
 - Planning decisions
 - Car parking, taxi licensing and concessionary bus fares
 - Leisure facilities
- 2.3 Further information on the activities of the Council is detailed in the eAnnual Report which is publicly available on the Council's website at <http://www.eppingforestdc.gov.uk>.

The purpose of this Letter

- 2.4 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website at www.eppingforestdc.gov.uk.

Responsibilities of the auditors and the Council

- 2.5 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 2.6 As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

The scope of our work

- 2.7 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
- the Council's financial statements (including the Whole of Government Accounts return)
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources
 - reports on grant claims.

3 Key findings

Financial statements

- 3.1 We issued an unqualified opinion on the Council's financial statements on 30 September 2010. Our opinion confirms that the financial statements gave a true and fair view of Council's financial affairs as at 31 March 2010 and of its income and expenditure for the year then ended.
- 3.2 We were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.
- 3.3 We identified some notable control weaknesses from our review of the Council's accounting and internal control systems, which adversely impacted the audit approach. These were:
- **Benefits:** Reconciliations, both between the housing and council tax benefits module of the Academy system and the general ledger and between the housing and council tax benefits module of the Academy system and the council tax module, had not been completed during the year. In addition, accuracy checks on claims processed had lapsed during the year.
 - **Creditors:** Controls over the ordering of goods and services were found to have lapsed, with notable amounts of orders being placed outside of Marketplace, the Council's electronic ordering system.
- 3.4 Although the draft accounts were prepared on time not all of the working papers requested were provided in time for the agreed start date of the audit, most significantly the reconciliations of housing and council tax benefit expenditure to the financial ledger and working papers that support the figures in the Cash Flow Statement.
- 3.5 Errors were identified and corrected during the course of the audit, of which six were significant enough to report in some detail in our Annual Governance Report. The most significant was a material misstatement of £25.5m in respect of accounting for fixed asset revaluations. The overall impact of the correction of this misstatement was to change the Council's reported outturn from a £4m deficit to a £21m surplus for the year in the Income and Expenditure account but did not have an impact on the General Fund balance.
- 3.6 In addition, the cash flow statement required substantial restatement and amendment to comparatives to fully reflect the requirements of the SORP in respect of agency accounting.

Whole of Government Accounts

- 3.7 The whole of government accounts return due to be signed on 3 October 2010 was actually signed on 27 October 2010, the delay being due to a significant number of errors which had to be corrected. An additional fee of £4,000 for the increase in audit work required has been agreed.

Use of resources

- 3.8 The Code requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This is known as the "value for money conclusion" and draws on the results of specific risk based audit work.

Specific risk-based work

- 3.9 We carried out a specific piece of work, based on our assessment of the key risks facing the Council, on partnership working around the health inequalities agenda.

Health inequalities

- 3.10 Epping Forest LSP (One Epping Forest) has strengthened its arrangements for tackling health inequalities. Further improvements are needed, but it has a stronger base for delivery and for having an impact on health inequalities in the future than demonstrated when we carried out our previous review. Progress against our original recommendations and the outcomes achieved are largely assessed as “amber” (indicating reasonable progress but with more to do) or “green” (indicating strong progress with the LSP on track to fulfil the recommendation).
- 3.11 Our report highlighted the following key areas where there is more to be done:
- Clearer identification of how targets impact on health inequalities and what success looks like would improve understanding and decision making.
 - Although action is co-ordinated through the LSP, the delivery of actions are not focussed or targeted enough in terms of explicitly tackling health inequalities.
 - An overall performance management framework is in place but mechanisms for measuring, reporting and managing progress in reducing health inequalities are under-developed.

Leadership and strategic capacity of the Council

- 3.12 The lengthy process around the departure of a senior officer, in our view, led to the Council not making the degree of progress in its own continued improvement agenda which could otherwise have been made.

Value for money conclusion

- 3.13 We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).
- 3.14 In June 2010 the Government announced the abolition of Comprehensive Area Assessment. As a result the Audit Commission announced changes to its use of resources approach, effective immediately, which included removal of the scored judgements for use of resources assessments in local government bodies. It was still necessary, however, for auditors to complete sufficient use of resources assessment work to support their statutory duty to give a value for money conclusion. In practice, much of the use of resources assessment had already been completed at the time of the announcement, in order to meet the prior deadline of submitting indicative scores to the Audit Commission by 21 April 2010.
- 3.15 Our work on the three main theme areas, undertaken up to and including the abolition of CAA and scored Use of Resources judgements, showed that the Council had maintained its adequate arrangements in the year in those key lines of enquiry previously assessed, with some areas of improvement evident, such as the development of a more robust strategic planning framework that demonstrates an improving integration of financial and corporate processes and strengthening its strategic approach to procurement.
- 3.16 With regard to the new assessment area of “Natural Resources” the Council’s arrangements are weaker but adequate overall.
- 3.17 Taking into account our work on use of resources, we concluded that adequate arrangements are in place to secure value for money and have provided an unqualified value for money conclusion for the year ended 31 March 2010.

Value for money conclusion approach 2010/11

- 3.18 Given the scale of the pressures facing public bodies in the current economic climate, the Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders.
- 3.19 From 2010/11 we will therefore apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Commission, concentrating on securing financial resilience and prioritising resources within tighter budgets.
- 3.20 We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

Grants

- 3.21 Our work on the 31 March 2010 grant claims remains on-going at the time of issuing this Letter. We will issue a detailed report on the findings from our work in January 2011, once all claims have been certified.
- 3.22 In relation to the 31 March 2009 claims, the details of which were reported earlier this year, the Council's claims preparation processes are sound in most areas although there is scope for improvement. In particular, there is a need to improve arrangements for processing benefits which will facilitate the production of a more accurate housing and council tax benefit subsidy claim for audit.
- 3.23 As a result of errors found in testing in a number of areas of the housing and council tax benefit subsidy claim, additional testing was required to provide a suitable evidence-base to extrapolate the total value of errors. A large number of amendments were made to the final claim and the return was qualified.
- 3.24 Key recommendations from this work were as follows:
- Perform targeted test checks on cells with known prior year errors to ensure those errors are not repeated in the current year.
 - Provide targeted training on the areas of weakness in the claims processing to address common mistakes made and identify skills gaps among processing staff.
 - Undertake a senior officer cell by cell comparison of the draft claim form to the prior year's claim form and challenge/investigate any significant unanticipated increases or decreases between years.
 - Complete the reconciliation of housing and council tax benefit expenditure to the ledger, rents and council tax systems, using the spreadsheet methodology provided by Capita for the Academy system.

Emerging issues

Current economic climate

- 3.25 The Government announced the results of its Comprehensive Spending Review in October 2010. Local Government faces cuts with an expected reduction of 7% per annum. The Council will need to re-review its MTFS to take account of the outlined proposals, especially when more detail becomes available.

IFRS

- 3.26 IFRSs will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. 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.
- 3.27 The Council has made some progress since the previous Audit Commission IFRS survey in November 2009 and has completed a review of all of its leases against the IFRIC 4 criteria. The Council expects that the 2009/10 accounts will be restated prior to 31 December 2010, along with production of a set of IFRS compliant skeleton accounts. A report detailing the IFRS impact and timetabling was presented by Officers at the November Audit and Governance Committee.

Appendix: Reports issued in relation to the 2009/10 audit

Report	Date Issued
Audit Fee Letter	April 2009
Annual Audit Plan	December 2009
Grant Claim Certification for the year ended 31 March 2009	February 2010
Annual Governance Report	September 2010
Annual Audit Letter	November 2010