

Epping Forest District Council

Annual Governance Report

2010/11

September 2011

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 Auditing standards require that we report to “those charged with governance” the key findings of our audit prior to issuing our opinion on the financial statements. In addition the Audit Commission requires us to report to you our key findings in relation to our Value for Money (VFM) conclusion work.

Findings and conclusions

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

Area of audit	Findings & Conclusion
Financial statements	
Key financial systems	<p>The key financial systems are generally adequate as a basis for preparing the financial statements. However, a deficiency in control was identified in respect of the housing and council tax benefits system.</p> <p>We were able to place reliance on the work of Internal Audit.</p>
Financial statements	<p>No material misstatements were identified as a result of our audit work. Some presentational issues of a material amount were corrected but had no effect on the Council’s reported outturn.</p> <p>One non-trivial but not material error was identified and this is detailed in Appendix B.</p> <p>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 the Audit and Governance Committee.</p> <p>We are satisfied that the Annual Governance Statement (AGS) is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified “true and fair” opinion.</p>
Value for Money conclusion	
Value For Money conclusion	<p>This is based upon the following two Audit Commission criteria:</p> <ul style="list-style-type: none"> - The organisation has proper arrangements in place for securing financial resilience - The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. <p>At the time of drafting this report we are finalising our work on the second criterion above and an oral update will be given at the Audit and Governance Committee.</p> <p>We anticipate, from the work completed to date and subject to satisfactory completion of the remaining work in progress, issuing an unqualified value for money conclusion.</p>

Acknowledgement

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

2 Introduction

- 2.1 This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2011.
- 2.2 Our report is presented to the Members in accordance with the provisions of International Auditing Standards (UK & Ireland) (“ISA”) 260 and ISA 265, which require us to report key findings from the audit and significant deficiencies in control, respectively, to “those charged with governance”, prior to issuing our opinion on the financial statements. Also in accordance with ISA 265 we have reported verbally to management other non-significant findings from our audit that have not already been raised by Internal Audit.
- 2.3 The contents of this report have been discussed and agreed with the Director of Finance and ICT.

Findings

- 2.4 Recommendations in response to the findings identified by our audit of the financial statements “other than those concerning corrected and uncorrected misstatements in the financial statements dealt with separately below” 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.
- 2.5 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have not restated weaknesses already reported by Internal Audit unless these are significant deficiencies in internal control as defined by ISA 265.

Fee outturn

- 2.6 The Audit Commission’s *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Audit Plan. The table below sets out this analysis:

Audit plan 2010/11	Planned fees £	Actual fees £
Financial statements, including WGA	86,200	86,200 *
Value for Money conclusion	35,000	35,000
Planning and reporting	28,500	28,500
Subtotal audit	149,700	149,700
Grants	62,000	62,000
Total	211,700	211,700

* At the time of drafting our audit is not complete. Should any additional fees arise, we will discuss the matter with management and issue an updated fee outturn to the Audit and Governance Committee.

In addition fees were billed in the year in relation to a matter unrelated to the financial statements or our value for money responsibilities which we have reported on separately to the Council, and we have almost concluded our billing on this matter.

- 2.7 A number of the grant claim audits are currently in progress or do not require certification until 31 December 2011 and therefore the actual fee remains an estimate of the expected final position. The final position will be reported in our grants report to be issued in February 2012.

Independence

- 2.8 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in the Audit Plan for 2010/11, has remained valid throughout the period of the audit.

3 Financial statements

Requirements

- 3.1 We are required to provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure and whether they have been prepared properly, in accordance with appropriate legislation and relevant accounting guidance.
- 3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements 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 In carrying out our work we determine and apply a level of materiality. Consequently 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, or specific individual elements of the financial statements as appropriate, such as the senior officer remuneration report.
- 3.5 We are also required to set a second level of materiality (known as “performance materiality”) which is to be used when planning and performing the audit. This has to be set at a level lower than the materiality for the financial statements as a whole so as to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
- 3.6 We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the auditor’s report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £31,500 to be trivial to the financial statements, unless the misstatement is indicative of fraud. We will request that any non-trivial uncorrected misstatements be corrected.

Reporting to those charged with governance

- 3.7 We will report to you:
- our assessment of and response to **significant risks** in the financial statements
 - significant qualitative aspects of **accounting practices** including the application of the applicable financial reporting framework
 - significant difficulties that we have encountered during the course of the audit
 - significant matters discussed, or subject to correspondence with management or other employees
 - **written representations** that we are requesting from you which includes the final draft letter of representation to be agreed by management and those charged with governance
 - **material misstatements** that have been corrected by management
 - **uncorrected misstatements**
 - expected modifications to the **audit report**
 - significant deficiencies 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** relevant to the financial reporting process.

3.8 Our comments in these areas are set out in order below.

Significant risks of material misstatement in the financial statements

3.9 Auditing standards require that we bring to your attention areas that require additional or special audit consideration and are, therefore, considered a significant risk. These may include weaknesses in controls or areas requiring a higher degree of judgement by management.

3.10 We reported to you our updated risk assessment in the 2010/11 Annual Audit Plan issued in December 2010. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the Council's draft financial statements, and concluded that there were additional significant risks to those previously reported.

3.11 The findings from our review of financial statements risks and other areas of audit focus identified in our Audit Plan are summarised in the table below:

Risk area	Overall conclusion
Significant audit risks	
Management override	Our review of management journals and accounting estimates did not indicate any material management bias or override of controls in preparing the financial statements.
Implementation of International Financial Reporting Standards (IFRS) in particular: <ul style="list-style-type: none"> • Leases • Grants • Componentisation • Investment properties 	<p>The Council has put in place appropriate arrangements to adopt IFRS and to restate its previous UK GAAP based accounts. On review of the accounts we identified that the Council had not included the necessary note in relation to the Transition to IFRS as required under IAS 1 or the 1 April 2009 comparators in respect of the balance sheet notes to the accounts. This has been corrected within the revised financial statements. No issues were identified with the work carried out on the specific risk areas which included:</p> <p>Leases – We completed a review of significant leasing arrangements which the Council is party to, and concluded that the Council had appropriately accounted for leases under IFRS.</p> <p>Grants – A review of government grants and contributions was completed and we concluded that the Council had appropriately accounted for these under IFRS.</p> <p>Componentisation – We reviewed the appropriateness of the Council's policy in respect of componentisation of its property, plant and equipment and considered this to be reasonable. However, at the time of drafting this report there are some outstanding queries in respect of the accuracy of the implementation of its policy. In particular, we are awaiting confirmation from the District Valuer that the useful economic lives of assets, used by the Council to calculate its depreciation charge, are reasonable. We will update the Audit & Governance Committee will the final position.</p> <p>Investment properties – A review was carried out on investment properties to ensure the Council had appropriately categorised investment properties under IFRS. No issues were identified.</p>
Implementation of new property management system	The Council did not implement the new property management system in time to use this in the preparation of the financial statements. This was not, therefore, treated as a significant risk for the audit.

Risk area	Overall conclusion
Property, plant and equipment valuation and accounting	The District Valuer's report for housing and the internal Valuer's report for general fund asset were agreed through to the fixed asset note and revaluation reserve within the financial statements. There were no issues identified with the number or valuation of properties included within the financial statements.

Accounting practices

Application of accounting policies

- 3.12 The key change introduced by the 2010 Code of Practice on Local Authority Accounting in the United Kingdom was the introduction of an IFRS based set of financial statements, resulting in a number of significant changes in accounting practice:
- Grants and contributions for capital purposes will be recognised as income immediately rather than being deferred and released to revenue to match depreciation, where grant conditions have been met
 - The main financial statements have changed, and there are additional requirements regarding segment reporting
 - There is a greater emphasis on component accounting, and a greater emphasis on derecognising parts of an asset that are replaced
 - Property leases are classified and accounted for as separate leases of land and buildings. Local Councils will also need to assess whether other arrangements contain the substance of a lease
 - Investment properties are measured at fair value, with gains and losses recognised in Surplus or Deficit rather than through the revaluation reserve
 - Impairment losses will be taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset
 - The Code introduces a new classification of non-current assets held for sale. Specific criteria apply to this classification
 - All employee benefits are accounted for as they are earned by the employee. This will require accruals for items such as holiday pay
 - The definition of associates is based on the ability to control rather than actual control, and may lead to a change in the group boundary.
- 3.13 The Council has dealt with the implementation of these changes in an appropriate manner and assisted us to complete an early audit of the changes under IFRS in February 2011.

The financial statements preparation process

- 3.14 The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations did introduce the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June 2011. The financial statements were signed and dated 30 June 2011 but not presented for audit until 11 July 2011.
- 3.15 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 electronic working papers on 8 August 2011, in line with the agreed timetable.

Staff availability

- 3.16 The initial audit timetable agreed with the Council anticipated completion within 5 weeks from the 8 August start date. However due to a notable amount of annual leave being taken by key finance contacts during the audit period, in particular the Assistant Director of Finance being absent for two of the five weeks, the efficiency of the audit was adversely affected resulting in notable slippage in the timetable.
- 3.17 We have discussed the possibility of moving the audit to a more optimal time for the Council and will discuss this further before finalising the timetable for the 2011/12 audit next month.

Testing of transactions and balances

- 3.18 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. Issues arose in respect of the following matters, which we bring to your attention:

National Non Domestic Rate (NNDR) income and expenditure

- 3.19 The Council did not include the small business rate supplement of £516,000 within the NNDR income and expenditure amounts within the Collection Fund. This was identified when the amounts payable within the NNDR3 grant claim did not agree through to the financial statements. Both income and expenditure were understated by £516,000. This is not material but has been corrected.

Appropriateness of management accounting estimates

Recoverability of debtor balances

- 3.20 When calculating its bad debt provision, the Council has applied the same methodology and provision rates for several years, without any formal review being undertaken in respect of on-going appropriateness. Last year we recommended that the Council should perform such a review, taking into account trends in its actual debt recovery and income collection rates. The Council did not undertake this review.
- 3.21 We assessed the general fund provision which the Council had applied in the year against the level of actual recovery of prior year debtors balances, and trends in income collection rates, and concluded that the Council has in our view been over prudent in its estimate for the level of provision required but accept any understatement would not be material. In light of the current economic climate, however, we understand and accept the reasons behind the Council's business decision to be cautious in this respect. Nevertheless we continue to recommend that a formal review of methodology and rates is undertaken.

Adequacy of disclosures

- 3.22 We identified some departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the Code. All disclosure errors have been amended by the Council. These were:
- The Council did not disclose the 1 April 2009 balances within the Balance Sheet notes to the financial statements as required by IFRS 1. There were some notes such as property, plant and equipment where this information was disclosed to reconcile opening and closing balances, but there were other notes such as debtors and creditors where this information was not disclosed. The Council has amended all relevant notes to show the 1 April 2009 balances.
 - The Council had not excluded all statutory debtors and creditors, for example amounts due from HMRC in respect of the VAT refund, from debtors and creditors included within the financial instruments note to the accounts. This led to a number of adjustments being made to both the debtors and creditors figures included within the financial instruments note.

- The revaluation history of the Council's Property, Plant & Equipment note (12) had not been split out to show the amounts revalued in previous years. The Council have now included the relevant disclosures within the financial statements.
- The Debtors note (17) showed the individual classes of debtors gross of the bad debt provision. The Code requires that each of the classes of debtors is shown net of the bad debt provision and that the bad debt provision is not separately disclosed. The Council corrected this disclosure for both the current year and prior year comparatives.
- The Council had not included a note which illustrated the transition between UK GAAP and IFRS accounting. This was included within a subsequent version.

3.23 In addition, the Council produced the Cash Flow notes in line with the example financial statements included within the Code, but we judged the pro-forma note as not achieving proper compliance with International Accounting Standard 7 (IAS 7) because the disclosures were inadequate in depth and structure. This has been amended.

Written representations

3.24 We are required by ISAs to obtain written confirmation from you of certain representations that have been made during the course of our audit. The draft letter of representation has been attached as Appendix C. Changes to the section on valuation of the housing stock may be necessary if the outstanding confirmation from the District Valuer that the useful economic lives of assets, used by the Council in its calculation of depreciation, is not received or indicates that they are not reasonable. .

Identified misstatements

3.25 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. To assist you in fulfilling your governance responsibilities, which include maintaining oversight of the financial reporting process and the system of internal control, we have set out below the misstatements identified during our audit.

Material misstatements corrected by management

3.26 These were as follows:

- £872,000 and £1,207,000 debtors included within the financial instruments note which should have been excluded from this note as they fall under the category of statutory debtors. This is detailed further above.
- £1,265,000 vacant possession value of housing stock which should have been excluded from the total figure disclosed within note 1 of the Housing Revenue Accounts. This has no impact on the valuation of housing stock included within the balance sheet. The original figure included within the financial statements was the valuation as at 1 April 2010 and did not take account of the properties which had been sold in the year.
- £782,000 adjustment to the value of depreciation in respect of Council dwellings in note 4 to the accounts, assumptions made about the future and other major sources of estimation uncertainty. The Council had originally included a depreciation figure which did not take account of the updated useful economic lives after componentisation.

3.27 These are presentational issues of a material amount which were corrected but had no effect on the Council's reported outturn.

Uncorrected non-trivial misstatements

- 3.28 We set out at Appendix B all of the non-trivial misstatements which we noted during the course of our audit and which management do not intend to adjust. There were no brought forward uncorrected non-trivial misstatements affecting this year's accounts. We will provide an update at the Audit and Governance Committee meeting should we identify any additional items during the final clearance of outstanding issues.
- 3.29 We will obtain written representation from the Audit and Governance Committee of the reasons for not making these adjustments as noted in Appendix C.

Audit report

- 3.30 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:
- Clearance of manager and partner accounts/system review points
 - Receipt of the related party disclosure declaration for one Member
 - Evidence to support the Council's approach to the componentisation of non-HRA property, plant and equipment, in particular, receipt of confirmation from the District Valuer that the useful economic lives of assets, used in the calculation of the depreciation charge, are reasonable
 - Completion of our substantive testing in support of benefits expenditure
 - Resolution of cash flow statement disclosure queries.
- 3.31 We will provide an update on these outstanding issues at the Audit and Governance Committee.

Accounting and internal control systems

- 3.32 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.
- 3.33 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.
- 3.34 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
 - National Non Domestic Rates
 - Housing rents income
 - Investments and investment income
- 3.35 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.
- 3.36 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.
- 3.37 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. We have included in Appendix A any recommendations arising from issues identified during our work which have not previously been communicated by Internal Audit.

Risks of material misstatement due to fraud

- 3.38 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 brought to our attention.
- 3.39 We did not identify any significant fraud risks that affected our audit programme for the financial statements.

Internal audit

- 3.40 Where possible, we have sought to use 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 its testing of the effectiveness of controls, to ensure that its conclusions are soundly based.
- 3.41 We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls.

Significant deficiencies in internal control

- 3.42 In accordance with ISA 265, we would like to draw to your attention the following matters arising from our review of the key financial and operational systems that we consider indicate the existence of significant deficiencies in the system of internal control.

3.43 In this respect please note that:

- the purpose of the audit was for us to express an opinion on the financial statements. Our audit is not designed to identify all deficiencies in the system of internal control nor to identify all improvements which might be necessary to address the deficiencies identified
- the audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and
- we report only those deficiencies that have come to our attention as a result of our audit work and that we have concluded are of sufficient importance to merit your attention.

Housing and council tax benefits

3.44 Detailed within the Council's housing and council tax benefit system procedures is a control that states senior benefits staff will perform 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims. Internal Audit identified that this control had not been fully operational for the year and two senior staff members were not completing the necessary level of checks. This matter has been included within Internal Audit's report on benefits which will be presented to the next Audit and Governance Committee. This failure in control could result in the Council awarding incorrect benefit to claimants.

3.45 Annual parameter up-ratings on the benefits system are processed at the beginning of the financial year however subsequent up-ratings (in the form of changes to standing data such as Local Housing Allowance) may also be required throughout the financial year. It was identified that controls were in operation for the annual up-rating, however there are no controls around subsequent up-ratings to ensure they have been input correctly.

3.46 As a result of these control failures we undertook additional substantive testing on benefit expenditure to ensure that the Council had received the appropriate documentation to support the assessment of benefit claims and that the claims had been awarded correctly. No issues were identified from the testing carried out.

Matters required to be reported by other auditing standards

3.47 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

3.48 The Council has a responsibility to publish an Annual Governance Statement, including the outcome of a review of its effectiveness, with its 2010/11 financial statements.

3.49 We have reviewed the Annual Governance Statement and the supporting review of effectiveness that has been undertaken and we are satisfied that the Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council.

4 Value for money conclusion

- 4.1 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, or “VFM”).

VFM conclusion

- 4.2 Our VFM conclusion is based on considering our preliminary judgements from the review of arrangements to deliver against the Code criterion as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in your Annual Governance Statement.

- 4.3 The table below sets out our conclusions for each of the VFM Code criteria:

	Code criterion	Criterion met
1	The organisation has proper arrangements in place for securing financial resilience.	Yes
2	The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	To be confirmed

Financial resilience

- 4.4 Along with all other Councils, Epping Forest District Council was notified of a reduction in central government revenue funding of 16.8% (or £1,706K)¹, with further reductions in the subsequent years. Forecast spending reductions are 13.1% (or £3,154K)² in 2011/12 which is a higher reduction than other District Councils across the Country that are all facing similar financial pressures. Although the Council is looking at utilising some reserves to rectify budgeting shortfalls, it has also transferred HRA assets to the General Fund with an annual rental income of £1.4m and also restricted historically underspent budgets, in order to fund the finance gap in the short term.
- 4.5 The Council has a good track record of achieving its budgets, putting it in the fortunate position, compared to similar councils, of having built up good levels of funds and reserves to support it in its response to the financial pressures now faced. From review of current documentation, the Council is on track to deliver its 2011/12 budget and is now focusing on its medium term financial strategy.

Challenging economy, efficiency and effectiveness

- 4.6 At the time of drafting this report we are finalising our work in this area of the VFM conclusion and an oral update will be given at the Audit Committee.

Overall conclusion

- 4.7 We anticipate, from the work completed to date and subject to satisfactory completion of the remaining work in progress, issuing an unqualified value for money conclusion.

¹ Source: CLG – RA and SSG returns 2010/11 and 2011/12

² Source: Audit Commission Financial Resilience Survey

Appendix A: Action Plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Financial statements					
There were some disclosure errors identified during our audit that would have been avoided had the Council utilised <i>LAAP 88 - Closure of the 2010/11 Accounts and related matters</i> (CIPFA technical update) which is a technical update paper issued by CIPFA to support councils in preparing their accounts.	1. Review LAAP bulletins and technical updates prior to preparing the financial statements to identify all key changes and technical issues relating to implementation of the Code and reflect them within the draft financial statements.	High	Agreed.	Peter Maddock Assistant Director of Finance and ICT	May 2012
The Council's current methodology for setting its provision for bad and doubtful debts does not take into account trends in actual arrears collection rates. Current information indicates that the Council could be over-providing.	2. Review the policy and methodology for calculating the provision for bad and doubtful debts, taking into account trends in actual arrears collection rates.	High	Agreed.	Peter Maddock Assistant Director of Finance and ICT	March 2012

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>Included within long term debtors are 9 dwellings which the Council has sold a proportion of to former tenants. The Council doesn't have legal rights over the properties but are entitled to a percentage of the sale value.</p> <p>The Council has been adjusting each dwellings valuation based on average valuation changes over the last few years to ensure the correct valuation is included within the amount due to the Council. The Council has not had these dwellings revalued along with the remaining housing stock as they have not been assigned beacon values. The assets were compared to similar dwellings included within the Valuer's report as at 1 April 2010 and the overall difference in valuation was trivial. However this practice has the potential to generate a non trivial difference in valuation in future years.</p>	3. Request that the Valuer assigns a beacon value to each of the properties to ensure that the asset value included within the financial statements is in line with the overall housing stock.	Low	Agreed.	Peter Maddock Assistant Director of Finance and ICT	March 2012
Financial systems					
Two senior benefits staff did not perform 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims as documented within the Council's system notes for benefits.	4. Remind the senior benefit staff of the on-going requirement for them to perform the 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims.	High	Agreed.	Janet Twinn Assistant Director of Finance and ICT - Benefits	October 2011
Ad-hoc updates made to standing data within the benefits system do not go through the same controls process as annual parameter updates. This could lead to incorrect standing data being input into the system resulting in incorrect benefit being paid.	5. Standing data updates throughout the year should be printed and counter signed by an appropriate officer to evidence the up rating has been correctly input.	High	Agreed.	Janet Twinn Assistant Director of Finance and ICT - Benefits	October 2011

Appendix B Uncorrected misstatements

The table below details the potential differences recorded during the audit which are not adjusted for currently within the financial statements. There were no prior year uncorrected misstatements.

Unadjusted misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves (Over)/ Under £'000	Management comments
Factual misstatements Being the correction of the netting off of the upward revaluation of guest rooms with the impairment charge recognised in the CIES.		(69)			69	
Judgemental misstatements None						
Total net misstatements - Net understatement of costs - Net overstatement of net assets		(69)			69	

In addition we believe that the bad debt provision of sundry debtors is overstated whilst this can not be quantified we are satisfied that this is not material.

Appendix C: Draft letter of representation

PKF (UK) LLP

Farringdon Place
20 Farringdon Road
London
EC1M 3AP

[26] September 2011

Dear Sirs

Financial statements of Epping Forest District Council for the year ended 31 March 2011

This representation letter is provided in connection with your audit of the financial statements of Epping Forest District Council for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of directors and management of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

FINANCIAL STATEMENTS

Responsibility for the financial statements

I acknowledge as the Director of Finance and ICT and s151 Officer my responsibilities for the financial statements and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Accounting policies

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

Significant assumptions

The following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable:

- See pension fund assumptions below
- Depreciation
- Bad debt provision

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 other than those disclosed 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 (RPI) | 3.4% |
| • Rate of inflation (CPI) | 2.9% |
| • Rate of increase in salaries | 4.4% |
| • Rate of increase in pensions | 2.9% |
| • Rate for discounting scheme liabilities | 5.5% |
| • Take up option to convert the annual pension into retirement grant | 50.0% |

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

Valuation of housing stock

The useful economic lives of the housing stock and its constituent components, used in the valuation of the housing stock and the calculation of the depreciation charge for the year were agreed with the expert valuer appointed by the Council.

Uncorrected misstatements

You have brought to my attention uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter. I do not wish to correct these misstatements as I consider them to be immaterial to the view given by the financial statements.

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. The Director of Finance and ICT is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Uncorrected misstatements

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Director of Finance and ICT for not correcting these misstatements, and we consider them to be immaterial to the view given by 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

Councillor A Watts
Chairman of the Audit and Governance Committee

Signed on behalf of the Council

Note: Appendix 1 referred to in this letter relates to Appendix B in this report

Appendix D: Draft independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EPPING FOREST DISTRICT COUNCIL

Opinion on the Council's financial statements

We have audited the financial statements of Epping Forest District Council (the Council) for the year ended 31 March 2011 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (based on International Financial Reporting Standards).

This report is made solely to the members of the Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and ICT and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance and ICT is responsible for the preparation of the Council's Statement of Accounts, that include the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and ICT; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of Epping Forest District Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Opinion on other matter

In our opinion, the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

Respective responsibilities of the Council and auditor

The Council 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 to review regularly the adequacy and effectiveness of these arrangements.

Our responsibility requires us to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance and financial management arrangements. It therefore excludes arrangements relating specifically to the delivery of front-line services, unless we have identified a significant risk with implications for corporate arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Epping Forest District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

Certificate

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

Richard Bint

for and on behalf of PKF (UK) LLP
London, UK

[26] September 2011