



# EPPING FOREST DISTRICT COUNCIL

FINAL REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE - 25 SEPTEMBER 2014

Audit for the year ended 31 March 2014

15 September 2014

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# OVERVIEW

## Significant audit findings

This Overview covers the significant findings from our audit of Epping Forest District Council ('the Council') for the year ended 31 March 2014. However, you should read the entirety of this report, as there may be other matters raised that you consider to be important.

AREA OF AUDIT	SUMMARY
Financial statements	<p>We have substantially completed our work, although there are a number of outstanding items to be received and/or completed at the time of drafting this report. Further detail on the status of our work is set out on the following page.</p> <p>Our final audit materiality is £1,920,000 (see Appendix III) and we have reported all non-trivial unadjusted audit differences greater than £40,000.</p> <p>No material misstatements were identified as a result of our audit work.</p> <p>There is one unadjusted audit difference identified by our audit work which would decrease the draft surplus on the provision of services in the Consolidated Income and Expenditure Statement (CIES) by £115,000 to £27.55 million (from £27.66 million).</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014.</p>
Control environment	We are required to report to you the significant deficiencies we found in internal controls during the course of our audit. No such deficiencies were identified.
Governance reporting	Subject to any issues that might arise in completion of our review of the Annual Governance Statement, we are satisfied that it is not misleading or inconsistent with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).
Whole of Government Accounts (WGA) Data Collection Tool	The Council's WGA is below the threshold that would require a full assurance review. However, we are required to review the consistency of property, plant and equipment and pension balances included in the WGA data collection tool with those recognised in the statement of accounts. This work is currently in progress.
Use of resources	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014. We anticipate issuing an unqualified value for money conclusion.

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

# OVERVIEW

## Audit status and timetable to completion

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

### AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2014. The following matters are outstanding at the date of this report.

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

- Completion of our review of the Annual Governance Statement
- Clearance of outstanding issues raised with management regarding:
  - Collection rates to support calculation of bad debt provision
- Final review of our audit work at engagement partner level, and clearance of any review points arising
- Receipt of final draft statement of accounts for agreed amendments
- Subsequent events review
- Receipt of Essex Pension Fund assurance letter
- Management representation letter, as attached in Appendix VI, to be approved and signed.
- Review of WGA data collection tool

### TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit and Governance Committee meeting	25 September 2014
Signing of financial statements	25 September 2014
Submission of WGA assurance report	By 3 October 2014

# INDEPENDENCE

## Integrity, objectivity and independence and appropriate safeguards

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Governance Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2014.

FEES AND NON AUDIT SERVICES	OTHER RELATIONSHIPS	LONG ASSOCIATION THREATS																
<p>A summary of fees for audit and non-audit services in respect of 2013/14 is set out below:</p> <table><thead><tr><th></th><th style="text-align: right;">£</th></tr></thead><tbody><tr><td>Audit fees</td><td style="text-align: right;">85,329</td></tr><tr><td>Certification fees</td><td style="text-align: right;">(1) 28,100</td></tr><tr><td><b>TOTAL FEES</b></td><td style="text-align: right;"><b>£113,429</b></td></tr></tbody></table>		£	Audit fees	85,329	Certification fees	(1) 28,100	<b>TOTAL FEES</b>	<b>£113,429</b>	<p>We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.</p>	<p>The Audit Commission’s Standing Guidance requires that the audit engagement partner should not act for more than five years and the audit manager for 10 years.</p> <table><thead><tr><th style="text-align: left;">Key audit staff</th><th style="text-align: right;">Years involved</th></tr></thead><tbody><tr><td>David Eagles - Audit engagement partner</td><td style="text-align: right;">2</td></tr><tr><td>Clare Reed - Audit Manager</td><td style="text-align: right;">3</td></tr><tr><td>Barry Pryke - Audit Manager</td><td style="text-align: right;">1</td></tr></tbody></table>	Key audit staff	Years involved	David Eagles - Audit engagement partner	2	Clare Reed - Audit Manager	3	Barry Pryke - Audit Manager	1
	£																	
Audit fees	85,329																	
Certification fees	(1) 28,100																	
<b>TOTAL FEES</b>	<b>£113,429</b>																	
Key audit staff	Years involved																	
David Eagles - Audit engagement partner	2																	
Clare Reed - Audit Manager	3																	
Barry Pryke - Audit Manager	1																	
<p>(1) work remains on going on the housing benefit subsidy return and the fees shown above is current scale fee.</p>																		

### INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

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

# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

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

- 1** The financial statements give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended.
- 2** The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.
- 3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.
- 4** The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.
- 5** The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.
- 6** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared.
- 7** The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# FINANCIAL STATEMENTS

## Key audit and accounting matters

### SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2013/14 Audit Plan issued in April 2014. We have since undertaken a more detailed assessment of risk following our review of the draft financial statements, and we have not included any additional significant risks.

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

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

### SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
<b>MANAGEMENT OVERRIDE OF CONTROLS</b>	<p>ISA (UK&amp;I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>We also reviewed accounting estimates for evidence of possible bias.</p>	<p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p>
<b>REVENUE RECOGNITION</b>	<p>Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue. In our Audit Plan, we reported that we considered this risk to be applicable to income from fees and charges only.</p>	<p>This matter has been revisited as part of our more detailed assessment of risk and taking account of the draft accounts. We have determined that the nature of the income associated with fees and charges is such that we are able to conclude that fraudulent recognition of fees and charges income is no longer a significant risk.</p>	<p>Fraudulent recognition of fees and charges income is no longer a significant risk. We have, however, performed audit procedures to provide us with sufficient assurance that income recognised in the statement of accounts is materially correct.</p>

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

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



# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
RISK	WORK PERFORMED	CONCLUSION
NEW NDR ACCOUNTING	We have reviewed the treatment of business rates following the introduction of new accounting requirements for 2013/14. We have verified that amounts reported on the face of the collection fund and amounts recognised in the Council's comprehensive income and expenditure statement (CIES) have been correctly accounted for in accordance with the Code.	No issues were identified.
REVISIONS TO IAS 19, "EMPLOYEE BENEFITS", AFFECTING PENSIONS	<p>For 2013/14, the Code incorporates changes to IAS 19, the accounting standard which governs the treatment of pensions in the Council's accounts. This represents a change in accounting policy and, where material, the Code requires that a prior period adjustment should be recognised to restate the 2012/13 comparative balances.</p> <p>The Council have not completed a prior period adjustment following the revisions to IAS 19 as the impact on 2012/13 balances is not material.</p>	We have reviewed the requirements of the Code and the actuary's report in light of the changes to IAS 19. We are satisfied that full restatement of prior period balances is not required, as the impact of any prior period restatement would be immaterial to the Council's statement of accounts.
PENSION LIABILITY AND ASSOCIATED DISCLOSURES	<p><b>Revised actuarial valuation</b></p> <p>Following approval of the draft statement of accounts and their submission for audit, the Council were notified by Essex Pension Fund that, during the preparation of the pension disclosures for 2013/14 the value used for the investment return had been understated. The Pension Fund requested that the actuary prepare a further report using the correct figures, with an updated report to be provided to the Council.</p> <p><b>Actuarial Engagement Letter</b></p> <p>There is no direct engagement letter between the Council and management's expert, the actuary. The engagement letter is between Essex County Council and Barnett Waddingham. As the Council places reliance on the information provided an agreement should be in place.</p>	<p>Following receipt of the updated actuary's report, management have amended the financial statements for the revised values, which has resulted in a reduction of £496,000 in the pension liability recognised in the balance sheet. We are satisfied that the financial statements are materially correct in respect of the amounts included.</p> <p>A recommendation has been included within Appendix IV in relation to this matter.</p>

### FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014.

# CONTROL ENVIRONMENT

## Significant deficiencies and other observations

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. No such deficiencies have been identified.

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We only restate weaknesses already reported by Internal Audit where we consider these to be significant deficiencies.

We did not identify any significant deficiencies in internal control.

**Key:** ■ Significant deficiency in internal control

■ Other deficiency in internal control

■ Other observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
MONTHLY RECONCILIATION OF HOUSING RENTS SYSTEM TO GENERAL LEDGER	Our work identified that the monthly reconciliations between the housing rents system and the general ledger had not happened during the year.	Failure to complete the monthly reconciliations could result in discrepancies between the two systems which are neither identified nor investigated in a timely manner.	Complete reconciliations between the housing rents system and general ledger on a monthly basis.

We made the observations reported to you above during the course of our normal audit work. Management responses to our recommendations are included in appendix IV.

# GOVERNANCE REPORTING

## Governance matters and quality of reporting

### FINANCIAL STATEMENTS PREPARATION

The draft financial statements, within the statement of accounts, was prepared and provided to us for audit on 30 June 2014.

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

### CONCLUSIONS AND AUDIT ISSUES

We have no significant matters to report.

### ANNUAL GOVERNANCE STATEMENT

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

### CONCLUSIONS AND AUDIT ISSUES

Subject to completion of our outstanding work, we are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

### STATEMENT OF ACCOUNTS

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

### CONCLUSIONS AND AUDIT ISSUES

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

# WHOLE OF GOVERNMENT ACCOUNTS

## Consistency of the Data Collection Tool

### SCOPE OF THE REVIEW OF THE DATA COLLECTION TOOL

We are required to perform tests with regard to the WGA data collection tool (DCT) prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.

This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

### CONCLUSION AND AUDIT ISSUES

The Council's WGA DCT is below the threshold for full assurance review. However, we are required to review the consistency of property, plant and equipment and pension balances included in the WGA DCT with those recognised in the statement of accounts. This work is currently in progress.

### ASSURANCE STATEMENT

The Council's WGA DCT is below the threshold for a full assurance review.

# USE OF RESOURCES

## Scope of the review

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

### AUDIT COMMISSION SPECIFIED CRITERIA

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance to auditors. This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience.  
The focus of the criteria is that the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.  
The focus of the criteria is that the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

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

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

### FOCUS OF REVIEW

We have reviewed the Council's arrangements against risk indicators and key issues facing the sector including the Government's spending review, funding over the medium term, risks arising from welfare reform, and risks from the localisation of business rates.

We have not identified any significant risks from our audit planning.

We also review the Council's relative performance against the VfM Profile Tool and Financial Ratios Analysis Tool produced by the Audit Commission, issues arising from VfM Briefings provided by the Audit Commission, and the key assumptions in the Medium Term Financial Strategy.

# USE OF RESOURCES

## Financial resilience

The financial resilience criterion has three aspects: financial governance, financial planning and financial control.

### FINANCIAL RESILIENCE

### AUDIT ISSUES AND IMPACT ON CONCLUSION

The draft 2013/14 financial statements report that the Council has achieved an underspend of £543,000 against the revised budget for 2013/14 and has recognised an increase of £7,621,000 in its usable reserves (comprising the general fund, earmarked reserves, housing revenue account, capital receipts reserve, major repairs reserve and capital grants unapplied) when compared to the closing balances in 2012/13.

No areas of concern.

The Council has set a balanced budget for 2014/15 and had identified required savings prior to the start of the year. From our review of current documentation, the Council is on track to deliver its 2014/15 budget. The Council also has a good track record of achieving budgets and successful financial management arrangements have put the Council in a relatively strong position of having built up notable levels of funds and reserves to provide support during the continuing period of financial pressures.

The medium term financial plan forecasts that it will be necessary to utilise reserves until 2017/18. However, at the end of this period it is estimated that revenue reserves will still be approximately £7.5m, which is more than the minimum level of reserves necessary to comply with its own financial management policies.

The Council already outsources a number of services in order to achieve savings and has been actively reviewing the on-going value for money (VFM) of these arrangements. This includes a retendering exercise in relation to the waste contract, where annual savings of over £400,000 have been realised.

## Challenging economy, efficiency and effectiveness

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

### CHALLENGING ECONOMY, EFFICIENCY AND EFFECTIVENESS

### AUDIT ISSUES AND IMPACT ON CONCLUSION

The Council has continued to review and consolidate its baseline arrangements for challenging and securing value for money during 2013/14. The arrangements operated during the year remain adequate. Business plans continue to outline annual value for money considerations and implications for each service and include benchmarking comparisons where appropriate.

No areas of concern.

Performance management and risk management arrangements that support the achievement of value for money are evidenced as continuing to operate as previously assessed with no contra-indicators.

The Council makes use of consultation, option appraisal and partnership working to assist in achievement of savings and delivery of improved services.

### USE OF RESOURCES CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014. We anticipate issuing an unqualified value for money conclusion.



# APPENDICES



# APPENDIX I: DEFINITIONS

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



## APPENDIX II: AUDIT DIFFERENCES

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

### CORRECTED AUDIT DIFFERENCES

Management has made corrections in the revised draft financial statements in respect of a safety net payment which was accrued for but to which the Council was not entitled and the reversal of an incorrect journal relating to housing rent accruals and prepayments. These adjustments have increased the surplus for the year by £14,000.

### UNADJUSTED AUDIT DIFFERENCES

There is one unadjusted audit difference identified by our audit work which would decrease the draft surplus on the provision of services in the CIES by £115,000 to £27.55 million (from £27.66 million). A schedule of uncorrected audit differences is set out below, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

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

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
<b>CIES (surplus) or deficit on the provision of services before adjustments</b>	<b>(27,662)</b>				
Dr Income	115	115			
Cr Deferred income					(115)
<i>The extrapolated error occurring as a result of an amount of £5,000 being recognised as income when it should have been included within deferred income (projected misstatement).</i>					
<b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>	<b>115</b>	<b>115</b>			<b>(115)</b>
<b>CIES (surplus) or deficit on the provision of services after adjustments</b>	<b>(27,547)</b>				

## APPENDIX III: MATERIALITY

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

### MATERIALITY

Planning materiality	£2,035,000
Final materiality	£1,920,000
<b>Clearly trivial threshold</b>	<b>£40,000</b>

Planning materiality of £2,035,000 was based on 2% of gross expenditure, using prior year values as per 2012/13 audited statement of accounts.

We have no reason to revise our final materiality level.

## APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>FINANCIAL STATEMENTS</b>				
<b>Actuarial Engagement Letter</b>				
There is no direct engagement letter between the Council and management's expert, the actuary. The engagement letter is between Essex County Council and Barnett Waddingham. As the Council places reliance on the information provided an agreement should be in place.	Liaise with the Pension Fund and the actuary to agree formal terms of engagement recognising the extent to which management place reliance on the information provided by the actuary.	The contractual relationship is between ECC and BW so we will not be able to insist on formal terms of engagement. However, we will liaise with both parties to see what is possible.	<b>Director of Resources</b>	<b>End of October 2014</b>
<b>CONTROL ENVIRONMENT</b>				
<b>Monthly reconciliations between housing rents system and general ledger</b>				
Our work identified that the monthly reconciliations between the housing rents system and the general ledger had not happened during the year.	Complete reconciliations between the housing rents system and general ledger on a monthly basis.	A reconciliation was performed at the year end and monthly reconciliations are now taking place.	<b>Director of Communities</b>	<b>Completed</b>

## APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

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

# APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

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

25 September 2014

Dear Sirs

## **Financial statements of Epping Forest District Council for the year ended 31 March 2014**

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2014 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Resources has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2014 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

After making appropriate enquiries of other members of the Council and other officers regarding disclosure of information to you as auditors, we confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

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

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

Yours faithfully


Bob Palmer

**Director of Resources**  
25 September 2014

Councillor A Watts

Chair of Audit and Governance Committee  
**Signed on behalf of the Audit and Governance Committee**

25 September 2014



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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