



EPPING FOREST DISTRICT COUNCIL

Annual Audit Letter 2014/15

21 October 2015

EXECUTIVE SUMMARY

Background

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission, whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter, and our grant claims and returns certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
21 October 2015

FINANCIAL STATEMENTS

1

We issued an unqualified true and fair opinion on the financial statements on 30 September 2015.

One material misstatement was identified and corrected during the audit relating to incorrect data input into the Asset Management System. As a result of this misstatement, the balance on the Revaluation Reserve was overstated by £6.6 million and the balance on the Capital Adjustment Account understated by the same amount.

There are two unadjusted differences identified by our audit which would increase the surplus on the provision of services by £1 million to £14.6 million.

USE OF RESOURCES

2

We issued an unqualified value for money conclusion on 30 September 2015.

OTHER MATTERS (REPORT BY EXCEPTION)

3

We have not exercised our statutory powers and have no matters to report.

We issued the audit certificate to close the audit for the year ended 31 March 2015 on 30 September 2015.

GRANT CLAIMS AND RETURNS CERTIFICATION

4

Our review of grant claims and returns is in progress and the results will be reported upon completion of this work.

FINANCIAL STATEMENTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2015.

Financial performance

The Council reported a surplus on the provision of services of £13.6 million.

After adjusting for items in the Movement in Reserves Statement, the Council reported a deficit on the General Fund of £0.3 million before transfers to earmarked revenue reserves of £0.3 million, resulting in a net decrease to the General Fund balance of £0.6 million. The HRA reported a deficit of £0.4 million after transferring £2.0 million to earmarked revenue reserves.

Financial statements

The draft Statement of Accounts was prepared and provided to us for audit on 30 June 2015. A comprehensive file of audit working papers was also provided.

One material misstatement was identified and corrected during the audit relating to incorrect data input into the Asset Management System. As a result of this misstatement, the balance on the Revaluation Reserve was overstated by £6.6million and the balance on the Capital Adjustment Account understated by the same amount.

There are two unadjusted differences identified by our audit which increase the surplus on the provision of services by £1 million to £14.6 million, mainly relating to the incorrect treatment of grant income, which was recognised as a credit on the balance sheet rather than as income in the comprehensive income and expenditure statement.

We consider that these misstatements did not have a material impact on our opinion on the financial statements.

Significant judgements and estimates

We reviewed the valuations of the Council's leisure centres which were performed by the Council's internal valuer and identified a significant increase in the value of these assets. We requested the internal valuer's working papers to support the valuation but these could not be located.

We requested that the Council revisit the valuation of the leisure centres and provide supporting working papers. The Council subsequently engaged an external valuer to provide the necessary information. This resulted in a valuation significantly lower than that originally recognised. We performed further work to satisfy ourselves that the revised valuation was materially correct and made a recommendation regarding the retention of working papers.

Annual Governance Statement

We are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit and complies with Delivering Good Governance in Local Government (CIPFA / SOLACE).

Narrative reporting

Local authorities are required to include an explanatory foreword in the Statement of Accounts to provide an explanation of the financial position and to assist in the interpretation of the financial statements.

CIPFA is considering the how local authorities can develop its narrative reporting requirements, such as including management commentary or strategic reporting, but has postponed this review until the legislative requirements for the sector are resolved. However, CIPFA's consultation on 'Telling the Story' will propose introducing reconciliation from the reported outturn in the financial statements to the Council's management accounts.

USE OF RESOURCES

2

CONCLUSION

We issued an unqualified value for money conclusion on 30 September 2015.

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:

- the organisation 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 is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Financial resilience

We reviewed the assumptions made in the latest version of the Council's medium term financial strategy (MTFS), which covers the five year period 2015/16 to 2019/20, and considered the level of savings the Council is required to make during the period covered by the strategy.

The MTFS shows that the Council expects to be able to maintain a level of general fund (excluding earmarked) reserves which exceeds the member approved level of 25% of the Council's net budget requirement (NBR). At the start of the MTFS, reserves are forecast to be 73% of NBR, falling to 66% at the end of the MTFS period.

The Council is forecasting that savings of £1.0m are required over the next five years. The Council has yet to determine how these savings will be achieved, although the Council has historically met its savings targets. Should these savings not be achieved, the Council has adequate reserves over the life of the MTFS to address the resulting budget gap.

Changes announced by central government following the election regarding the capping of social housing rent is likely to have a significant impact on the ability of the Council to deliver the HRA business plan as it currently stands. The Council is currently considering the impact of this on its investment plans for council dwellings and its effect on the proposed repayments of borrowing entered into following the move to HRA self-financing.

Challenging economy, efficiency, effectiveness

We considered the Council's arrangements for improving efficiency and productivity. We have reviewed the Council's operations during the year for evidence which demonstrates that it is taking action to prioritise its resources.

The Council has produced a "Value for Money" strategy, which sets out its corporate arrangements for delivering value for money services which meet the needs of residents and service users. This describes the concept of value for money and describes how the Council aims to achieve it. It is available to all officers.

The Council has continued to develop annual budgets which reflect the priorities outlined in its Corporate Plan. The existing Corporate Plan came to an end in March 2015 and a new Corporate Plan, covering the period 2015 - 2020 has recently been approved by members.

Key performance indicators were developed at the beginning of 2014/15 and progress against these has been reported to the Finance and Performance Management Cabinet Committee on a quarterly basis, allowing members to identify areas where performance may require improvement and providing the opportunity to challenge officers where necessary.

During 2014/15, the Council entered discussions regarding a local non-domestic rates pool with nine other authorities in Essex and the pooling arrangement came into force on 1 April 2015. The Council expects to gain approximately £136k from this arrangement, although the impact of non-domestic rate appeals submitted prior to the 31 March 2015 deadline may have an impact on this amount.

OTHER MATTERS

3

REPORT BY EXCEPTION

We have no other matters to report.

Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.

Use of statutory powers

We have not exercised our statutory powers and have no matters to report.

Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2015 on 30 September 2015.

GRANT CLAIMS AND CERTIFICATION

4

CERTIFICATION WORK

Our review of grant claims and returns is in progress and the results will be reported upon completion of this work.

Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our audit of the 2013/14 housing benefits subsidy claim found a number of errors in relation to the following:

- **Non-HRA rent rebates ineligible meal costs:** We identified one case where ineligible meal costs had been incorrectly included in the calculation of eligible rent.
- **Rent rebates private pension income:** We identified three cases where benefit had been underpaid because private pension income had not been correctly calculated.
- **Rent Allowances ineligible support charges:** We identified three cases where the benefit award had been incorrectly calculated due to a support charge being deducted from the weekly eligible rent in error.
- **Rent allowances misclassification of benefit expenditure:** We identified two cases where non-HRA rent rebate expenditure had been incorrectly classified as rent allowance.
- **Rent allowances incorrect classification of regulated tenancies:** We identified eleven cases where benefit expenditure relating to deregulated tenancies has been incorrectly classified as that relating to regulated tenancies.

Our work on the 2014/15 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2015.

Other claims and returns

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by the Audit Commission or Public Sector Audit Appointments Ltd, and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the Department for Communities and Local Government, for the pooled housing capital receipts return (which has a deadline for submission of 30 November 2015). Our work on this return is currently in progress.

APPENDIX

Reports issued

We issued the following reports in respect of the 2014/15 financial year.


REPORT	DATE
Planning letter	March 2014
Grant Claims and Returns Certification Report (2013/14)	February 2015
Audit Plan	March 2015
Final Audit Report	September 2015
Annual Audit Letter	October 2015

Fees update

We reported our original fee proposals in our Audit Plan issued in March 2015. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Code audit fee	86,229	86,229
Certification of housing benefit subsidy claim	24,710	⁽¹⁾ 24,710
Total fees for audit services	110,939	110,939
Audit related services - Pooled housing capital receipts return	TBC	⁽¹⁾ 2,000
Non audit services fees	£nil	£nil

Note 1 - Our work on the assurance reviews of the grant claims and other returns for 2014/15 is in progress and we will report the findings from this work and the final fees separately.



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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