

Annual Governance Report

---

Date

---

Last saved: 06/09/2007 17:00:00

# **Annual Governance Report**

**Epping Forest District Council**

**Audit 2006/07**

- Audit Commission descriptor to be inserted by Publishing-

Document Control

Author Paul King

Filename EFDC Annual Governance Report 0607 final

### **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2007

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

# Contents

<b>Purpose of this document</b>	<b>5</b>
<b>Key messages</b>	<b>6</b>
<b>Audit status</b>	<b>7</b>
<b>Management Representations</b>	<b>8</b>
Unadjusted misstatements	8
Adjustments to the financial statements	8
Accounting practices	8
Systems of internal control	9
<b>Use of resources</b>	<b>10</b>
Work performed	10
Use of resources assessment	10
Data quality work	10
Best value performance plan	10
<b>Audit fee update</b>	<b>11</b>
<b>Appendix 1 – Action plan</b>	<b>12</b>
<b>Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity</b>	<b>13</b>
<b>Appendix 3 – Audit reports issued</b>	<b>14</b>
<b>Appendix 4 – Proposed auditor’s report</b>	<b>15</b>
Independent auditor’s report to the Members of Epping Forest District Council	15
Respective responsibilities of the Chief Finance Officer and auditor	15
Basis of audit opinion	16
Opinion	16
Authority’s Responsibilities	17
Auditor’s Responsibilities	17
Conclusion	18
<b>Appendix 5 – Draft Management representation letter</b>	<b>19</b>
<b>Appendix 6 – Summary of unadjusted misstatements</b>	<b>22</b>



## Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case The Audit and Governance Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged with Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
  - where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Audit and Governance Committee on 13 September. Members are invited to:
  - consider the matters raised in the report before the financial statements are approved;
  - approve the representation letter on behalf of the Council and those charged with governance before we issue our opinion; and
  - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that we presented to the Finance and Performance Management Cabinet Committee on 3 April 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

## Key messages

- 6 Our work on the financial statements is substantially complete although there are still outstanding issues to be resolved. In particular, our work on pension costs and related disclosure notes has yet to be concluded, as well as our work on the Whole of Government Accounts return. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of this Committee. We propose issuing an unqualified audit opinion prior to the statutory deadline of 30 September 2007 (a draft report is attached at Appendix 4).
- 7 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 8 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources prior to the statutory deadline of 30 September 2007 (a draft report is attached at Appendix 4), subject to the completion of our work on data quality.

## Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete although we are still working on pension costs and related disclosures notes as well as our work on the Whole of Government Accounts return. In addition our work on data quality is still ongoing.
- 10 The Council has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.

## Management Representations

- 11 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 12 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 13 The final draft of the letter of representation has been attached at Appendix 5.

## Unadjusted misstatements

- 14 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. One potential misstatement is attached at Appendix 6 for the information of members.
- 15 We invite you to consider whether the financial statements should be amended for the unadjusted misstatement identified at Appendix 6. Should you choose not to amend the financial statements, in accordance with ISA (UK&I) 260 we request that you extend the representation letter to explain why. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates.

## Adjustments to the financial statements

- 16 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. There have been no such corrections.

## Accounting practices

- 17 We are also required to report to you our view on the qualitative aspects of the Council's accounting practices and financial reporting and have set out below our observations on key issues affecting the Council.



- 18 The Council sold Wickfields, a multi-occupancy HRA property, to a Housing Association in 2006/07. The Council has accounted for this sale at nil consideration and disclosed a £1.2m loss on sale calculated with reference to the valuation in the asset register of £1.2m. The legal paperwork supporting the sale suggests a consideration of £1.493m was payable. This was invoiced to the Housing Association but never received as it was netted off against an equal charge from the Housing Association to reflect the cost of the work required to bring the accommodation up to the Decent Homes Standard. We understand from the Council that there was never any intention for this amount to be paid by either party but the consideration figure was an estimate of the savings to the Council over a period of time as a result of the transfer. We have accepted that the accounts reflect the substance of the transaction and have made reference to this in the draft letter of representation at Appendix 5.
- 19 However, the Council has claimed back the VAT chargeable on the £1.493m invoice raised by the Housing Association (£191,726) and then passed this over to the Housing Association. The cost of the building work carried out to bring the property up to the Decent Homes Standard was subsequently deemed to be £789,000.
- 20 The Council has sought expert VAT advice on a similar transaction in the past, and adopted the same treatment in respect of Wickfields. However, based on current HMRC guidance which has been shared with the Council, there is a risk that the Council has either claimed back too much VAT or should not have claimed it back at all because of the way this transaction has been processed.

## Systems of internal control

- 21 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. Internal audit had identified weaknesses in payroll controls during the year and as a result we were required to do additional testing, although we were able to place significant reliance on the work already performed by Internal Audit. The weaknesses highlighted and already reported were:
- identified differences between the Human Resources and Payroll establishment lists;
  - failure to remove a leaver from the payroll system; and
  - weaknesses in the reconciliation of the payroll control account to the ledger.
- 22 We do not aim to provide a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 23 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.

## Use of resources

### Work performed

- 24 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- use of resources assessment;
  - data quality work; and
  - the 2006/07 Best Value Performance Plan.
- 25 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 7.

### Use of resources assessment

- 26 We are currently finalising our report arising from the use of resources assessment. When finalised, we will report and discuss our findings with officers.

### Data quality work

- 27 We are currently finalising our data quality review and will report and discuss our findings with officers. In addition we will present a report to Those Charged with Governance.

### Best value performance plan

- 28 Our work in respect of the Council's 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

## Audit fee update

- 29 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan:

	<b>Plan 2006/07</b>	<b>Revised estimate 2006/07</b>
Financial statements and Statement on Internal Control	£90,890	£90,890
Use of Resources	£27,340	£27,340
Total Audit Fees	£118,230	£118,230
Grants certification work (work ongoing)	£50,000 (estimate)	to be advised

- 30 The analysis above shows that we estimate our audit fee will be contained within the totals you have already agreed.
- 31 The final outturn on audit and inspection fees will be reported in the annual audit and inspection letter.

## Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
8	The Council should review its treatment of VAT on the transactions involving the sale and refurbishment of Wickfields in 2006/07 and seek professional advice to confirm that the correct treatment has been applied.	2	Head of Finance	Yes	The treatment was in line with professional advice previously received. The cost of additional advice will be investigated.	31/10/07

## **Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity**

- 1** We are required to communicate the following matters to those charged with governance:
  - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Council, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2** We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

## Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	March 2006	March 2006	The Council
BVPP report	by December 2006	November 2006	The Council
Interim audit memorandum	April 2007	To be incorporated into Final accounts memorandum (no significant issues to report)	
Use of Resources Report	March 2007	March 2007	Those Charged with Governance
Annual governance report	September 2007	September 2007	Those Charged with Governance
Opinion on financial statements	September 2007	To be confirmed	The Council
VFM conclusion	September	To be confirmed	The Council
Final accounts memorandum	October 2007	To be confirmed	Those Charged with Governance
Data quality report	October 2007	To be confirmed	Those Charged with Governance
Annual audit letter	March 2008	To be confirmed	The Council

## **Appendix 4 – Proposed auditor’s report**

### **Independent auditor’s report to the Members of Epping Forest District Council**

#### **Opinion on the financial statements**

I have audited the financial statements of Epping Forest District Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Epping Forest District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

#### **Respective responsibilities of the Chief Finance Officer and auditor**

The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

I review whether the statement on internal control reflects compliance with CIPFA’s guidance ‘The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003’ issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council’s corporate governance procedures or its risk and control procedures

I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

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

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

## Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of Epping Forest District Council as at 31 March 2007 and its income and expenditure for the year then ended.

Paul King  
District Auditor  
Audit Commission  
Sheffield House  
Lytton Way  
Stevenage  
SG1 3HG

[ ] September 2007



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

### **Authority’s Responsibilities**

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

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **Auditor’s Responsibilities**

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

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

## Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Epping Forest District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

## Best Value Performance Plan

I issued my statutory report on the audit of the authority’s best value performance plan for the financial year 2006/07 on 22 November 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

## Certificate

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

Paul King

Audit Commission

Sheffield House

Lytton Way

Stevenage

SG1 3HG

[ ] September 2007

## Appendix 5 – Draft Management representation letter

To: Paul King  
District Auditor  
The Audit Commission  
Sheffield House  
Lytton Way  
Stevenage  
SG1 3HG

### **Epping Forest District Council - Audit for the year ended 31 March 2007**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Epping Forest District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

I confirm that I believe that the effects of the uncorrected financial statements misstatement detailed in the attached schedule is not material to the financial statements. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows:

- the amounts involved are not material; and
- the Council considers the VAT on the Wickfields transaction was properly reclaimable.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### **Specific representations:**

The accounts reflect the transfer of Wickfields to a Housing Association for nil consideration which was always the intention of the Council and is therefore the substance of the transaction, despite the legal paperwork stating the consideration payable was £1.493 million.

### **Supporting records**

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 member meetings, have been made available to you.

### **Related party transactions**

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded, and where appropriate, adequately disclosed in the financial statements.

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### **Law, regulations and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

### **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

### **Post balance sheet events**

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Epping Forest District Council

Signed

Bob Palmer

Head of Finance

[    ] September 2007

## Appendix 6 – Summary of unadjusted misstatements

- 1 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. The items below are brought to your attention to enable you to consider whether the financial statements should be amended for them. If you choose not to amend the financial statements in respect of these items, you should extend the representation letter to explain why.

		Income and Expenditure Account		Balance Sheet	
Unadjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
The VAT reclaimed with regards to the sale of Wickfields may not be in accordance with the relevant regulations.	Provision for the VAT reclaimed	192			192
<b>Net Effect</b>		<b>192</b>			<b>192</b>

## Appendix 7 – Value for money conclusion

- 2 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.
- 3 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Council has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code Criteria	Description	Associated UoR KLoE	UoR Score	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	N/A	To be confirmed
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	to be advised	Adequate

24 Annual Governance Report | Appendix 7 – Value for money conclusion

6	The body has put in place arrangements to manage its significant business risks.	4.1	to be advised	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	to be advised	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	to be advised	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	to be advised	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	to be advised	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	to be advised	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	to be advised	Adequate