EPPING FOREST DISTRICT COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017

26 October 2017

BDO

EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2017. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

RESPONSIBILITIES OF AUDITOR 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 National Audit Office's (NAO's) Code of Audit Practice (the Code), and 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 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
26 October 2017

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified true and fair opinion on the financial statements on 27 September 2017.

We reported our detailed findings to the Audit and Governance Committee on 18 September 2017.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 27 September 2017.

FINANCIAL STATEMENTS

OPINION	We issued our unmodified true and fair opinion on the financial statements on 27 September 2017.

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 they 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, and the overall presentation of the financial statements.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Management override of controls	The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud. Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls. We responded to this risk by testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. We also obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	No issues were identified by our audit work in this area.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Revenue recognition	Under Auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income. We also considered there to be a significant risk in relation to the existence of fees and charges and investment rental income recorded in the Comprehensive Income and Expenditure Statement. We responded to this risk by gaining an understanding of the authority's internal control environment for the significant income streams, including how these operate and ensure that income is recognised. We also substantively tested an increased sample of fees and charges income.	No issues were identified by our audit work in this area.
Property, plant and equipment valuations	There was a risk over the valuation of land and building as the valuations are based on assumptions that are uncertain by nature, if inappropriate or inaccurate assumptions are used in the calculation of fair values. The extent of the valuation increases exceeded our expectations (which are based on the increases in property prices suggested by published indices). We therefore considered that the valuation of property, plant and equipment (including investment properties) presented a significant risk of material misstatement. We responded to this risk by reviewing the inputs, instructions provided to the valuers and reviewing the valuers' skills and expertise to determine if we could rely on the management expert. We also confirmed that the basis of valuation for assets valued in year was appropriate based on their usage. We also reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appeared unusual compared to these indices.	No issues were identified by our audit work in this area.
Pension Liability	There was a risk the valuation was not based on accurate membership data or used inappropriate assumptions to value the liability. An independent review of actuarial assumptions highlighted that the discount rate used by the pension fund actuary, Barnett Waddingham, to calculate the value of the liability is outside of what was considered a reasonable range and that the inflation assumption was at the top of the reasonable range. We responded to this risk by agreeing the disclosures to the information provided by the pension fund actuary. We contacted the administrating authority and requested confirmation of the controls in place for providing accurate membership data to the actuary. We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. We engaged an auditors' expert, due to the specialist nature of the pension fund liability calculation, to consider the matters highlighted in the independent report and the impact on the reported pension liability. Our expert concluded that reducing both of the identified variables would have a negligible effect on the pension liability.	No issues were identified by our audit work in this area.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Changes in presentation of the financial statements	The Code required changes to the presentation of some areas of the financial statements. These included: • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) • Change to the format of the Movement in Reserves Statement (MIRS) • New Expenditure and Funding Analysis (EFA) note • Change to the Segmental Reporting note • New Expenditure and Income analysis note. These changes required a restatement of the 2015/16 CIES. There was a risk that these presentational changes would not be correctly applied in the financial statements. We responded to this risk by reviewing the draft financial statements against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements. We ensured that the restatements required by the changes to the Code agreed to prior year financial records. We also ensured that the new notes are in the same format as reported to Finance and Performance Management Cabinet Committee.	The presentational changes and restatement of relevant sections of the financial statements were in accordance with the Code. No issues were identified by our audit.

FINANCIAL STATEMENTS

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £2,000,000. This was determined with reference to a benchmark of gross expenditure (of which it represents 2%) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

We agreed with the Audit and Governance Committee that we would report all individual audit differences in excess of £40,000.

AUDIT DIFFERENCES

Our audit work did not identify any unadjusted audit differences.

FINANCIAL STATEMENTS

OTHER MATTERS WE REPORT ON

Narrative report

The information given in the narrative report in the Statement of Accounts for the financial year was consistent with the financial statements.

Annual governance statement

The annual governance statement meets the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government: Framework' (2016 edition) published by CIPFA/SOLACE and was not misleading or inconsistent with other information that is forthcoming from the audit.

INTERNAL CONTROLS

We did not find any significant deficiencies in internal controls during the course of our audit. A number of other areas for improvement were identified which we have discussed with management.

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 certain non-current assets); 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 RESOURCES

CONCLUSION	We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 27 September 2017.

SCOPE OF THE AUDIT OF USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

Our work performed during our on-going risk assessment process included a review of the Medium Term Financial Strategy (covering the period 2016/17 to 2020/21), the current year outturn and the Council's reserves position.

The Council remains in a strong financial position due to its healthy reserve balances. Management have updated the Medium Term Financial Strategy (MTFS) since our initial risk assessment and the predicted revenue balance at the end of the period covered by the MTFS is expected to be £5.287m, which represents 41% of the Council's net budget requirement for 2020/21. This is significantly above the minimum 25% approved by members.

We assessed the Council's response to falling central government funding for local government through its exploration of commercial opportunities and the Transformation Programme. The Langston Road Retail Park is expected to provide the Council with a significant source of income once fully operational and revenue estimates within the MTFS from the Shopping Park appear reasonable.

As part of the Transformation Programme the Council commissioned an option appraisal around its Service Accommodation. The service accommodation review demonstrates how the Council is forward thinking in relation its future service requirements and its ability to generate new income streams in an environment of falling central government funding. A detailed business case is being commissioned to quantify costs and savings from the reorganisation of the Council's estate.

As no significant risks have been identified no additional detailed work was performed.

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous Annual Audit Letter.

REPORT	DATE
Audit plan	10 March 2017
Audit completion report	06 September 2017
Annual Audit Letter	26 October 2017

FEES

We reported our original fee proposals in our audit.

We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Code audit - scale fee	64,672	64,672
Housing benefits subsidy claim certification - scale fee	18,533	18,533
Total audit and certification fees	**83,205**	**83,205**
Pooled housing receipts certification	2,000	2,000
Audit-related services fees	**2,000**	**2,000**
Other non-audit services	-	-
Total fees	**85,205**	**85,205**

FOR MORE INFORMATION:

ZOE THOMPSON
Engagement lead

T: +44 (0)1473 320 734
E: zoe.thompson@bdo.co.uk

NICK BERNSTEIN
Manager

T: +44 (0)207 034 0810
E: nick.bernstein@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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