



EPHING FOREST DISTRICT COUNCIL

AUDIT PLAN TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ending 31 March 2018

Date of issue: 19 January 2018

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INTRODUCTION

PURPOSE AND USE OF OUR REPORT

We present our Audit Plan to the Audit and Governance Committee. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process.

This report has been prepared to highlight and explain the key components of our audit strategy we believe to be relevant to the audit of the financial statements and use of resources of Epping Forest District Council ('the Authority') for the year ending 31 March 2018. Audit planning is a collaborative and continuous process and our audit strategy, as reflected in this report, will be reviewed and updated as our audit progresses. In particular, we will review our approach following our interim audit site visit. We will communicate any significant changes to our audit strategy, should the need for such change arise.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. As the purpose of the audit is for us to express an opinion on the Authority's financial statements for the year ending 31 March 2018, 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 consider internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work is not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit and Governance Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department), the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US public companies) and CPAB (Canadian Public Accountability Board), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for audits of listed companies and public interest entities.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

YOUR BDO TEAM

Core team	Name	Contact details	Key responsibilities
<div>Zoe Thompson Engagement Lead</div>	Zoe Thompson Engagement Lead	Tel: 01473 320 734 zoe.thompson@bdo.co.uk	Oversee the audit and sign the audit report
<div>Nick Bernstein Engagement Manager</div>	Nick Bernstein Engagement Manager	Tel: 0207 034 5810 nick.bernstein@bdo.co.uk	Management of the audit
<div>Puyan Mani Senior Auditor</div>	Puyan Mani Senior Auditor	Tel: 0207 893 3596 puyan.mani@bdo.co.uk	Day to day supervision of the on-site audit

Zoe Thompson is the Engagement Lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

- the financial statements are free from material misstatement, whether due to fraud or error
- the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

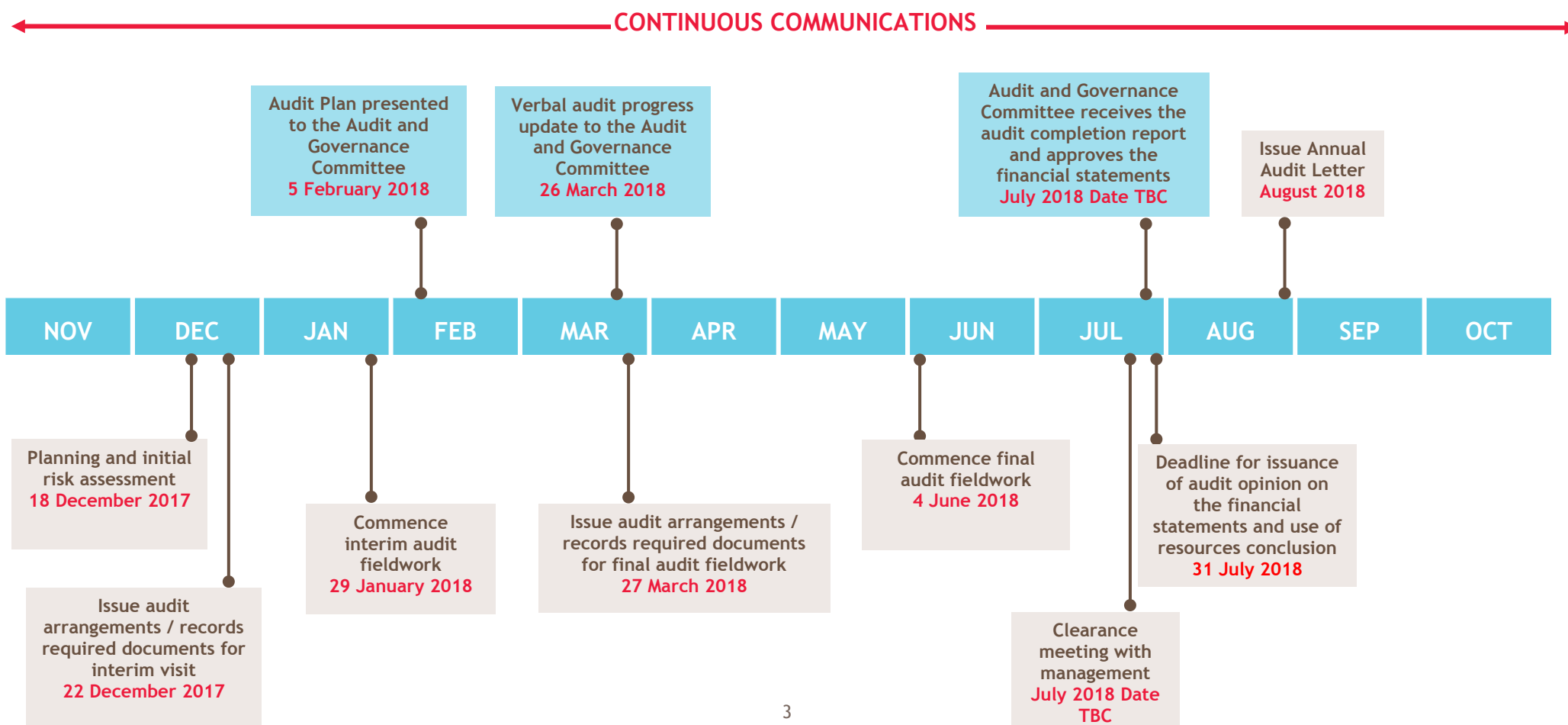
She is also responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

- Key dates involving the Audit and Governance Committee
- Other key dates

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit Office (NAO) Code of Audit Practice (the Code), International Standards on Auditing (UK) and other guidance issued by the NAO.

Our audit objective is to form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
1 The financial statements give a true and fair view of the financial position of the Authority and its expenditure and income for the period in question.	2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.	3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).	4 The return required to facilitate the preparation of Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.	5 The Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

ADDITIONAL POWERS AND DUTIES

6 Where necessary: <ul style="list-style-type: none"> consider the issue of a report in the public interest make a written recommendation to the Authority. 	7 Where necessary: <ul style="list-style-type: none"> consider electors' questions about the accounts and consider objections apply to the court for a declaration that an item of account is contrary to law consider whether to issue an advisory notice or make an application for judicial review.
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MATERIALITY

AUTHORITY MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Epping Forest District Council	£2,000,000	£40,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the Authority has been based initially on 2% of 2017/18 budgeted gross expenditure. This will be revisited when the draft financial statements are received for audit. A lower level of materiality is applied to sensitive areas of the financial statements identified as senior management remuneration disclosures, auditors remuneration disclosure and related party disclosures.

The clearly trivial amount is based on 2% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the Authority's financial statements and use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the Authority's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk to gain an understanding of the Authority's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to audit risks.

New Auditing Standards from 2017/18

This is the first year of application of a revised set of ISAs applicable to the UK. These include enhanced requirements in respect of the audit of disclosures, other information published with the accounts and of going concern, as well as changes to the structure and content of the audit opinion.

Audit risks and planned audit responses

For the financial statements audit, under ISA (UK) 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions

- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided sub criteria which we will consider as part of our risk assessment process as follows:

- informed decision making
- sustainable resource deployment
- working with partners and other third parties.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit planning and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

Fraud risk assessment

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the Council's financial statements is low and that controls in operation would prevent or detect material fraud. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

We are required to discuss with those charged with governance their oversight of management's processes for identifying and responding to risks of all fraud.

We expect Audit and Governance Committee Members, as those charged with governance, to let us know if there are any actual, suspected or alleged instances of fraud of which they are aware.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk [SR] ■ Normal risk [NR]

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override [SR]	<p>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.</p> <p>Under ISA (UK) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtain 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. 	None.
Other income - Revenue recognition [SR]	<p>Under ISA (UK) 240 there is a presumption that income recognition presents a fraud risk.</p> <p>We consider that the presumed risk of fraudulent revenue recognition can be rebutted for income received in respect of taxation and non-specific government grants. These items are determined either at the beginning of the year as part of the Authority's budget setting process or by central government. This reduces the opportunity for manipulation.</p> <p>For the remaining revenue streams, specifically fees and charges, we consider that the risk of fraudulent revenue recognition remains in respect of accuracy, existence and completeness.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Carry out audit procedures to confirm our understanding of the authority's internal control environment for the significant income streams, including how this operates and ensure that income is recognised. • Carry out audit procedures to gain an understanding of the authority's internal control environment for new income streams, in particular the Shopping Park, including income recognition policies based upon the arrangements and agreements in place. • Substantively test an increased sample of income streams from source document to the general ledger, testing income to supporting documentation. 	None.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Property, plant and equipment valuations [SR]	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.</p> <p>The fair value for land and buildings, including Epping Forest Shopping Park, in PPE and Investment Properties is a management estimate based on market values or depreciated replacement cost (DRC). Management use external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation. The council also use an external valuer for investment properties as well as using internal valuers.</p> <p>There is a risk over the accuracy of the valuation of land and buildings where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert. Confirm that the basis of valuation for assets valued in year is appropriate based on their usage. Confirm that an instant build modern equivalent asset basis has been used for assets valued at DRC. Review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices. Gain reasonable assurance that the carrying values of Property, Plant and Equipment (PPE) and Investment Properties that were not revalued in the year are not materially different to the fair value at the balance sheet date. 	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>
Pension liability Assumptions [SR]	<p>The net pension liability comprises the Council's share of the market value of assets held in the Essex County Council Pension Fund and the estimated future liability to pay pensions.</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 is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will:</p> <ul style="list-style-type: none"> Agree the disclosures to the information provided by the pension fund actuary. Contact the administering authority and request confirmation of the controls in place for providing accurate membership data to the actuary. Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. 	<p>We will:</p> <ul style="list-style-type: none"> Agree the disclosures to the report received from the actuary. Use the consulting actuary report commissioned by the NAO to review the methodology of the actuary and reasonableness of the assumptions applied.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Consideration of related party transactions [NR]	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.	<p>We will:</p> <ul style="list-style-type: none"> Document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions. Discuss with management and review councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us. 	We will perform Companies House searches to identify undisclosed interests.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Financial sustainability [SR]	<p>With the continued reductions in central government funding for local government and increased pressure on services, the Council faces an increasing financial challenge in relation to General Fund balances.</p> <p>The Council has put in place its Transformation Programme to deliver required savings over the medium term, key pillars of which are the People, IT and Accommodation Strategies. The Council requires the successful implementation of these strategies in order maintain its level of reserves and continue to be financially sustainable in the longer term. Each strategy presents risks and opportunities for the Council which will require robust scrutiny and monitoring, especially given the changing circumstances, such as the potential listing of some of the Council's building that would impact on the accommodation review proposals.</p> <p>Given the financial landscape in which the Council is operating, we consider financial sustainability to be a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review the Council's Medium Term Financial Strategy to assess the reasonableness of assumptions used and how the Council is addressing financial pressures. Consider the progress made by the Council regarding the exploitation of the commercial opportunities it has identified. Review the progress it has made with its Transformation Programme. 	Not applicable.

INDEPENDENCE

INDEPENDENCE

Under 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 have a bearing 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 engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ending 31 March 2018.

The threats we have identified are described below together with the safeguards we have put in place to mitigate those threats.

DETAILS OF RELATIONSHIP (INCLUDE ANY OTHER INFORMATION NECESSARY)	THREATS TO INDEPENDENCE CREATED	SAFEGUARDS PUT IN PLACE (AND WHY THEY ADDRESS SUCH THREATS)
The threat to auditor independence from Audit Related Services	Self-interest threat	The threat to auditor independence from Audit Related Services is insignificant therefore no safeguards required.

Other than the items identified above, we have not identified any potential threats to our independence as auditors.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation after 5 and 10 years respectively. The table below sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Zoe Thompson - Engagement lead	2	2021/22
Nick Bernstein - Engagement manager	2	2027/28

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2018 are:

	2017/18 Proposed fee £	2016/17 Actual fee £
Code audit fee	64,672	64,672
Certification fee (Housing benefits subsidy)	18,533	18,533
Total code audit and certification fees:	83,205	83,205
Fees for non-audit services - audit related (see below)	TBC	TBC
Fees for non-audit services - other	-	-
TOTAL FEES	TBC	TBC

NON AUDIT SERVICES FEES ANALYSIS

£

Audit related services:

Pooled capital receipts certification fee	TBC
Total	TBC

The above fees do not differ from those included in the fee letter that we issued on 9 March 2017.

We have been raising invoices for the Code audit fee on a quarterly basis, at £16,168 per quarter, from June 2017.

Following our firm's standard terms of business, full payment will be due within 14 days of receipt of invoice. Fee invoices for any other services will be raised as the work is completed.

In 2016/17, we were engaged by management to provide reporting accountant assurance on the pooling of housing capital receipts return. This work is outside of the framework which governs the Code audit work and certification of the housing benefit subsidy return. Should we be appointed to undertake similar work in 2017/18, we will report the fee to the Audit and Governance Committee once agreed with management.

Our fee is based on the following assumptions

- The complete draft financial statements and supporting working papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.
- Key dates will be met, including receipt of draft accounts, Governance Statement and working papers prior to commencement of the final audit fieldwork.
- We will receive only one draft of the financial statements prior to receiving the final versions for signing.
- Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION


- Materiality is the amount by which misstatement in the financial statements could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The concept of materiality applies not only to monetary misstatements but also to other disclosures in the financial statements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. At the planning stage we set an overall level of materiality for the financial statements as a whole based on our understanding of the elements of the financial statements that are likely to be of greatest significance to users. Lower materiality levels may be set for specific classes of transactions, balances or disclosures where appropriate. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. 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.

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- We will communicate to you all uncorrected misstatements, including omission, identified during our audit, other than those which we believe are 'clearly trivial'.
- We will request that adjustments be made to correct such errors. However, where you choose not to do so we will request written representations from the Board of Directors confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- Should any misstatements remain uncorrected we will consider the implications for our audit report.



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. No responsibility to any third party is accepted.

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