



# EPPING FOREST DISTRICT COUNCIL

## ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

30 August 2018

# EXECUTIVE SUMMARY

## PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at Epping Forest District Council for the year ended 31 March 2018.

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.

## 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 National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report on:

- Our opinion 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**

## AUDIT CONCLUSIONS

### FINANCIAL STATEMENTS

We issued our unmodified opinion on the financial statements on 1 August 2018.

We reported our detailed findings to the Audit and Governance Committee on 30 July 2018.

### 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 1 August 2018.

# FINANCIAL STATEMENTS

## OPINIONS

We issued our unmodified opinion on the Council's financial statements on 1 August 2018.

In our opinion:

- The financial statements give a true and fair view of the financial position and its income and expenditure for the year
- That the financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

## SCOPE OF THE AUDIT

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 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.

The materiality for the Council's financial statements was set at £2 million. 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 financial performance.

## 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.

## FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	<p>Under auditing standards, there is a presumed risk of management override of controls as management is in a unique position to manipulate accounting records to prepare fraudulent financial statements.</p> <p>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.</p> <p>We reviewed the accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>We obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or appeared to be unusual.</p>	<p>No issues were identified by our audit work from our review of journals and review accounting estimates for management bias.</p> <p>We found no significant transactions that were outside the normal course of business or otherwise appear unusual.</p>

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Revenue recognition	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk.</p> <p>We responded to this risk by testing an increased sample of fees and charges income to underlying documentation to confirm the existence and accuracy of transactions throughout the year.</p> <p>We carried audit procedures to gain an understanding of the Council's internal control environment for new income streams, in particular the Langston Road Retail Park, including income recognition policies based upon the arrangements and agreements in place.</p> <p>We substantively tested an increased sample of income streams from source document to the general ledger and testing income to supporting documentation.</p>	<p>We did not identify any deficiencies in the internal control environment relating to the recognition of income.</p> <p>Substantive testing of a sample of income transactions did not identify any errors relating to the accuracy or existence of the income recognised.</p>

## FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of land, buildings and investment property	<p>Due to the significant value of the Council's property assets, and the high degree of estimation uncertainty, there is a significant risk over the valuation of land, buildings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Reviewing the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert.</li> <li>• Checking the basis of valuation for assets valued in year as appropriate.</li> <li>• Checking the accuracy and completeness of the source data used by the valuer.</li> <li>• Reviewed the reasonableness of assumptions used in the valuations against indices and price movements for classes of assets, and followed up valuation movements that appeared unusual against indices.</li> <li>• Estimated the potential movement on classes of assets that were not revalued in year to assess whether there is the potential for material movements since the last valuation.</li> </ul>	<p>We gained assurance over the independence, objectivity and competence of the Council's external valuers, and therefore, can rely upon their work in valuing the Council's property assets.</p> <p>In relation to the sample of Property, Plant and Equipment assets and investment properties reviewed, we were satisfied that the basis of the valuation for each asset was appropriate. We challenged the valuer in respect of a number of property valuation movements, which appeared unusual in comparison to general indices and were satisfied these fall within a reasonable range.</p> <p>We gained assurance that the carrying values in respect of land and building not valued in the year were not materially different to the carrying values as reported by the Council.</p>

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of pension liability	<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 actuary. 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 responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Agreeing the information provided by the actuary.</li> <li>• Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</li> <li>• Requesting assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</li> <li>• Checking whether any significant changes in membership data have been communicated to the actuary.</li> </ul>	<p>The disclosures in the Council's financial statements were consistent with the information provided by the actuary.</p> <p>Subsequent to the Council issuing the draft accounts, the Essex Pension Fund actuary re-issued its valuation report as there had been a significant movement in the estimate and actual fund value in the Essex Pension Fund of £111 million. This had the consequential impact of increasing the Council's pension scheme liability in the draft financial statements by £2.9 million to £74.9 million.</p> <p>We reviewed the reasonableness of the assumptions used by the pension fund actuary and did not identify any issues.</p>

## USE OF RESOURCES

<b>CONCLUSION</b>	We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 1 August 2018.
	This means we concluded that the Council has proper arrangements to: <ul style="list-style-type: none"><li>• Ensure it took properly informed decisions</li><li>• Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.</li></ul>

### SCOPE OF THE AUDIT

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

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 annual governance statement, and information available from the risk registers and supporting arrangements.

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.

## USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
<p>Financial sustainability</p>	<p>With the continued reductions in central government funding for local government and increased pressure on services, the Council faces an increasing financial challenge.</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 Service 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.</p> <p>Given the financial landscape in which the Council is operating, we considered financial sustainability to be a significant risk.</p> <p>We reviewed the Council’s Medium Term Financial Strategy (MTFS) to assess the reasonableness of assumptions used and how the Council is addressing financial pressures.</p> <p>We considered the progress made by the Council regarding the exploitation of the commercial opportunities it has identified.</p> <p>We reviewed the progress it has made with its Transformation Programme.</p>	<p>The Council remains in a strong financial position due to its healthy reserve balances. The General Fund balance at the end of the year was £6.7 million and this is significantly above the minimum 25% approved by members. Earmarked reserves of £21.2 million provide the Council with a healthy useable reserve balance.</p> <p>The Council recognised that ongoing reductions in central government funding will present significant financial challenges in the medium term. The development of the Langston Road Shopping Park, which is now operational, has provided the Council with a significant new revenue stream to mitigate against declining government funding, however, occupation levels will need to be maintained to ensure the Shopping Park is a success. The Transformation Programme is now in its third year and one strand of this programme is the People Strategy. The net savings of the proposed restructure are expected to be in the region of £1.7 million to £2.5 million. Another strand of the programme is the accommodation strategy and is not currently reflected in the MTFS as this strategy is under review following The Civic Offices being awarded Grade II listed building status.</p> <p>The Council has healthy reserves and a strong asset base and we reviewed the MTFS which was based on reasonable assumptions. The Council has demonstrated its commercial appetite through the development of the Shopping Park and progress with the Transformation Programme has continued in the year. No impact on our opinion was identified from our work.</p>

## APPENDIX

### REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
2016/17 Grant claim certification report	18 January 2018
Audit plan	19 January 2018
Audit completion report	25 July 2018

### FEES

We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit - PSAA scale fee	64,672	64,672
Housing benefits subsidy certification fee	18,533	18,533
<b>Total audit and certification fees</b>	<b>83,205</b>	<b>83,205</b>
Pooling of housing capital receipts return 2016/17	TBC	2,000
Pooling of housing capital receipts return 2017/18	TBC	TBC
<b>Total non-audit assurance services</b>	<b>TBC</b>	<b>TBC</b>
<b>Total assurance services</b>	<b>TBC</b>	<b>TBC</b>



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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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