

Supplementary Committee Agenda



**Epping Forest
District Council**

Finance and Performance Management Cabinet Committee Thursday, 26th July, 2018

Place: Council Chamber, Civic Offices, High Street, Epping

Time: 7.00 pm

Democratic Services: R. Perrin Tel: (01992) 564532
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6.b Annual Governance Report (Pages 3 - 44)

To consider the attached report (FPM-008-2017/18) and appendices.

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Report to the Finance and Performance Management Cabinet Committee



**Epping Forest
District Council**

Report Reference: FPM-008-2018/19

Date of meeting: 26 July 2018

Portfolio: Finance

Subject: Annual Governance Report

Responsible Officer: Peter Maddock – (01992 564602)

Democratic Services Officer: Rebecca Perrin - (01992 564532)

Recommendations/Decisions Required:

To note the External Auditor's Annual Governance Report.

Executive Summary:

The External Auditors will present their Annual Governance Report to the Audit and Governance Committee on 30 July 2018. The report has been placed on this agenda to ensure that members of this Committee are aware of the key issues raised.

The Annual Governance Report has only been received today as the audit is still ongoing. The report is tabled for information.

Reasons for Proposed Decisions:

To ensure that Members are informed of any significant issues arising from the audit of the Statutory Statement of Accounts.

Other Options for Action:

The report is for noting, no specific actions are proposed.

Report:

1. International Standard on Auditing 260 requires the External Auditor to report to those charged with governance certain matters before they give an opinion on the Statutory Statement of Accounts. The External Auditor has indicated that their audit of the Council's Statutory Statement of Accounts for 2017/18 is nearly complete and that they wish to present their report to the Audit and Governance Committee on 30 July.

2. As the Annual Governance Report may contain issues that this Committee should be aware of, the report has been provided for that purpose.

Resource Implications:

None.

Legal and Governance Implications:

Any legal and governance implications will be set out by the external auditors in their report.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

None.

Background Papers:

Statutory Statement of Accounts and associated reports made to the Audit and Governance Committee and Full Council.

Risk Management:

If the Committee did not receive the Annual Governance Report they may be unaware of a significant issue raised by the External Auditor.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date / Name	Summary of equality analysis
26/07/18 Assistant Director of Resources	The report is to highlight any concerns arising from the external audit. It does not propose any change to the use of resources and so has no equalities implications.

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EPHING FOREST DISTRICT COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

25 July 2018

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WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit and Governance Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Governance Committee. At the completion stage of the audit it is essential that we engage with the Audit and Governance Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Governance Committee meeting on 30 July 2018, and to receiving your input.

In the meantime, if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

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

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit and Governance Committee in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

AUDIT SCOPE AND OBJECTIVES

Audit status	We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section on page 6.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 19 January 2018.
Materiality	Our final materiality is £2,000,000. Our materiality levels have not required reassessment since our audit planning referred to above.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.

KEY AUDIT AND ACCOUNTING MATTERS

Material misstatements	<p>Our audit identified the following material misstatements:</p> <ul style="list-style-type: none"> Upon transfer of the Langston Road Retail Park from Assets Under Construction to Investment Properties, the Revaluation Reserve balance was not removed via the Capital Adjustment Account. The revaluation reserve was therefore overstated by £6.503 million and this has been adjusted in the revised financial statements. The St John's Road site was classified as an asset held for sale within current assets at £6.139 million in the draft financial statements. However, planning permission has not yet been granted on the site and therefore the site should have been classified as a surplus asset within non-current assets. Surplus assets were consequently understated by £6.139m and this has been adjusted in the revised financial statements. The Essex Pension Fund actuary reissued its IAS19 actuarial valuation report in June following publication of the Council's draft financial statements as there had been a significant movement in the estimate used in the actuarial calculation and the actual fund value at the year end of £111 million. The impact for the Council is that the pension scheme liability has increased by £2.859 million to £74.860 million and this has been adjusted in the revised financial statements.
Unadjusted audit differences	There are no unadjusted audit differences identified from our work to date.

OVERVIEW

KEY AUDIT AND ACCOUNTING MATTERS CONTINUED	
Control environment	Our audit identified no significant deficiencies in internal controls.
Other financial reporting issues	Following the receipt of the draft accounts, the Pension Actuary has issued an updated IAS19 report and our work on this is in progress. A number of presentational changes have been made to the draft financial statements as a result of the audit.
KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Financial Sustainability	Management reported at the end of the year a General Fund balance of £6.7 million. This is an improved position compared to the opening balance of £0.5 million predominantly due to a change in accounting treatment. Management are planning for reserves to be 37% of the Council’s net funding requirement by 2021/22 with the minimum requirement being set by Members at 25%. The Council has healthy levels of reserves when compared to the minimum requirement and a strong asset base. We have assessed the impact of the Transformation Programme and the commercial strategy the Council has adopted on its finances and we are satisfied that appropriate plans are in place to continue to deliver these strategies.

OVERVIEW

AUDIT OPINION	
Financial statements	Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.
Annual Governance Statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.
OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND GOVERNANCE COMMITTEE	
Whole of Government Accounts (WGA)	The Council is below the audit threshold of £500 million for a full assurance review of the WGA Data Collection Tool.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VI.

OUTSTANDING MATTERS

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit and Governance Committee meeting at which this report is considered:

Our work is currently on going in the following areas:

- 1
- Valuation of council dwellings, investment properties and other land and buildings,
 - Review of the updated pension disclosures; and
 - Financial instruments.

The key items on the queries tracker currently with management are:

- 2
- Financial instruments working papers
 - Property, plant and equipment valuation source data

3

Completion of Manager, Director and Quality Control review, and clearance of review points

4

Final review and approval by you of the Statement of Accounts

5

Technical clearance

6

Subsequent events review

7

Management letter of representation, as attached in Appendix VI to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls	<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 tested 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 accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud</p> <p>We 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.</p>	<p>We have used data analytics software, BDO Advantage, to review the Council's general ledger, in order to focus our testing of journals on higher risk areas.</p> <p>Our detailed testing of a sample of journals is substantially complete and work to date has not identified any significant issues.</p> <p>We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.</p> <p>We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2 Revenue Recognition	<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 carried out audit procedures to update our understanding of the authority's internal control environment for the significant income streams, including how this operates and ensure that income is recognised.</p> <p>We carried 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.</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 have no matters to report.</p>

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Property, plant and equipment valuations	<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. 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 reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine if we can rely on management's expert.</p> <p>We confirmed that the basis of valuation for assets valued in year is appropriate based on their usage.</p> <p>We confirmed that an instant build modern equivalent asset basis has been used for assets valued at DRC.</p> <p>We reviewed valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.</p> <p>We gained reasonable assurance that the carrying values of 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>	<p>Our work is currently ongoing and a verbal update will be provided to the Committee.</p> <p>We have to date gained sufficient 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 PPE assets and investment properties reviewed, we are satisfied that the basis of the valuation for each asset is appropriate. We have challenged the valuer in respect of a number of property valuation movements, which appeared unusual in comparison to general indices.</p>

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES	
Land, buildings, dwellings and investment property valuations	
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT
Land and buildings are valued by reference to existing use market values	Council Dwellings and Garages The Council’s housing stock and garages have increased in value by an average of 3.3%, giving a total revaluation gain of £13.8 million after accounting for stock movements. We have compared this to a Gerald Eve house price index for the Eastern region, which shows increases of approximately 5.8% over the same period and land registry data shows prices within prices in Epping Forest have increased by 2.1%. We have challenged the valuer on anything outside the range but are currently waiting for responses. We will provide a verbal update to the Audit and Governance Committee.
Dwellings are valued by reference to open market value less a social housing discount	Investment Properties Investment properties have increased in value overall by £11.3 million in year. This increase relates to the Langston Road Retail Park (£7.2 million) and the former Landmark Building (£3.4 million). Our review of the investment property valuations and challenge of the assumptions used is ongoing.
Investment properties are valued by reference to highest and best use market value	Other Land and Buildings Other land and buildings have been revalued up by £1.1 million. MCSI regional capital growth indices (for buildings) show regional increases of -0.7% for retail, -0.8% for office, and +7.4% for industrial, for the period Q1 2017 to Q1 2018. We have tested a sample of properties, and are challenging the valuer where individual movements appear unusual. This work is also on-going at the time of drafting this report and a verbal update will be provided to the Committee.
Some specialist buildings are valued at depreciated replacement cost by reference to building indices	

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4 Pension liability assumptions	<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 have agreed the disclosures to the information provided by the pension fund actuary.</p> <p>We have contacted the administering authority and requested confirmation of the controls in place for providing accurate membership data to the actuary.</p> <p>We have reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p>	<p>Subsequent to the Council issuing the draft accounts, the Essex Pension Fund actuary re-issued its IAS19 actuarial valuation report as there had been a significant movement in the estimate and actual fund value in the draft accounts of 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 £2.859 million to £74.860 million.</p> <p>Our review of the work performed by the auditor of the administering body is in progress.</p> <p>We consider that the assumptions and methodology used by the Council's actuary within the report are appropriate, and will result in an estimate of the net pension liability that falls within a reasonable range, subject to us gaining suitable assurance over the accuracy of the membership data used.</p> <p>Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted on page 12.</p>

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES				
Pension liability assumptions				
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT			
The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows	The actuary has used the following assumptions to value to future pension liability:			
		Actual used	Actuary range	PwC assessment of actuary range to market expectations
	RPI increase	3.35%	3.3-3.35%	Top of expected range
	CPI increase	2.35%	2.3-2.35%	Top of expected range (derived from RPI above)
	Salary increase	3.85%	--	Top of expected range (derived from RPI above)
	Pension increase	2.35%	2.3-2.35%	Top of expected range (derived from RPI above)
	Discount rate	2.55%	2.5-2.6%	Reasonable; sits within expected range
	Mortality - LGPS:			
	- Male current	24.4 years	23.7-26.8	Reasonable
	- Female current	27.0 years	26.6-28.4	Reasonable
	- Male retired	22.2 years	21.5-24.5	Reasonable
	- Female retired	24.7 years	23.7-26.8	Reasonable
	Commutation	50%	50%	Reasonable
	The assumptions used fall within the reasonable range for the actuary.			

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Consideration of Related Party Transactions	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.	We documented the related party transactions identification procedures in place and reviewed relevant information concerning any identified transactions. We discussed with management and reviewed councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. .	We have not identified any significant matters in connection with related parties.

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES		
We comment below on other issues identified in the course of our audit, of which we believe you should be aware:		
AUDIT AREA	AUDIT FINDINGS	
1	Revaluation Reserve	<p>In the prior year, the Langston Road Retail Park was classified within PPE as an Asset Under Construction and the land on which the Retail Park stands was revalued. In the current year, the Retail Park was completed and the asset was transferred to Investment Properties. The incorrect accounting treatment was applied upon transfer and the revaluation reserve amount of £6.503 million was not removed via the Capital Adjustment Account. Consequently, the revaluation reserve was therefore overstated by £6.503 million in the draft accounts.</p> <p>Management has amended this in this in statement of accounts.</p>
2	Asset Held for Sale	<p>In the draft financial statements, the St John’s Road site was classified as an asset held for sale within current assets valued at £6.139 million. Planning permission has not yet been granted on the site and so the site cannot be classified as held for sale until this has happened. Surplus assets were therefore understated by £6.139m in the draft accounts.</p> <p>Management have amended this in this in statement of accounts.</p>
3	Service Accommodation Review	<p>The cost of the service accommodation review of £109k was capitalised, however, it does not meet the criteria of capital expenditure. Revenue expenditure was consequently understated by £109k.</p> <p>Management have amended this in this in statement of accounts.</p>
4	Faster close	<p>The Council provided a set of draft financial statements within the new statutory timeframe. There have been a number of minor amendments made to the financial statements, both by officers, and by us during the audit process to both numbers and the surrounding narratives.</p> <p>The revised financial statements are still being updated.</p>

KEY AUDIT AND ACCOUNTING MATTERS

MATTERS REQUIRING ADDITIONAL CONSIDERATION		
We comment below on other matters requiring additional consideration:		
AUDIT AREA	AUDIT FINDINGS	
1	Fraud	Whilst Management has ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 19 January 2018.

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

MATTER	COMMENT
1 We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Statement of Accounts is consistent with the financial statements and our knowledge.
2 We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the guidance ‘Delivering Good Governance in Local Government Framework’ (2016 Edition) published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit.	We have no matters to report in relation to the Annual Governance Statement’s compliance with relevant guidance.

CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Governance Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, 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 considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the Council's internal controls in 2017/18.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
1 Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 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.	<p>Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018.</p> <p>We expect to submit the relevant section of the assurance statement to the National Audit Office (NAO) ahead of the deadline of 31 August 2018.</p>

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 (value for money) and report to you on an 'except for' basis. This is 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.

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We reported our risk assessment, which included use of resources significant risks, in the 2017/18 Audit Plan issued in January 2018. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks. We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk

USE OF RESOURCES

RISK	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1 SUSTAINABLE FINANCES	<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 Service Accommodation Strategies. The Council requires the successful implementation of these strategies in order to 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 have 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 have considered the progress made by the Council regarding the exploitation of the commercial opportunities it has identified.</p> <p>We have reviewed the progress it has made with its Transformation Programme.</p>	<p>The General Fund balance at the end of the year was £6.7 million, a £0.5 million increase compared to the opening position predominantly due to a change in accounting treatment relating to the rent-free periods on the Shopping Park. Earmarked reserves have also increased by £0.1 million to £21.2 million providing the Council with a healthy useable reserve balance overall. Net savings of £1.7 million were delivered in the year against a target of £0.5 million, the overachievement of the target resulted from additional savings in relation to the leisure contract and the accounting for rent-free periods on the Shopping Park income.</p> <p>Management have updated the MTFS since our risk assessment and the predicted revenue balance at the end of the period covered by MTFS is expected to be £4.8 million, which represents 37% of the Council's forecast net budget requirement for 2021/22. This is above the minimum 25% approved by members.</p> <p>Both management and Members have 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 costs incurred from redundancies and the savings to be made from the proposed staffing structure have been included in the MTFS, with expected savings to be in the region of £1.7 million (£2.5 million including the housing revenue element). 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 have reviewed the MTFS which has been 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 has been identified from our work.</p>

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit and Governance Committee is required to consider. This includes audit differences that have been corrected by management, and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

Our audit has identified 3 material audit differences.

There were 4 audit differences identified by our audit work that were adjusted by management:

- On the transfer of the Langston Road Retail Park out of assets under construction into investment properties, the revaluation reserve balance was not removed via the capital adjustment accounts. The revaluation reserve was therefore overstated by £6.503 million.
- The St John's Road site was classified as an asset held for sale within current assets at £6.139 million in the draft financial statements. However, planning permission has not yet been granted on the site and therefore the site should have been classified as a surplus asset. Surplus assets were consequently understated by £6.139m.
- The Essex Pension Fund actuary re-issued its IAS19 actuarial valuation report in June 2018 following publication of the Council's draft financial statements as there had been a significant movement in the estimate and actual fund value of £111 million. The impact for the Council is that the pension scheme liability has increased by £2.859 million to £74.860 million.
- The cost of the service accommodation review of £109k was capitalised, however, it does not meet the criteria of capital expenditure. Revenue expenditure was consequently understated by £109k.

This decreased the surplus on provision of services by £109k, from £23.417 million to £23.308 million.

UNADJUSTED AUDIT DIFFERENCES

There are no unadjusted audit differences identified by our audit work to date.

APPENDIX II: PRIOR YEAR RECOMMENDATIONS AND ACTION PLAN

We have followed up on the recommendations that we raised in the prior year:

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	2017/18 OBSERVATION
ANNUAL REPORT AND ACCOUNTS				
RELATED PARTIES	We noted that four related party declarations had not been returned from councillors.	Require all Councillors to return their related party declarations including positively confirming no related party relationships.	It was proposed to ask those members still to sign to do so at the next Full Council later this month.	We have not noted any issues with the related party declarations.
LATE DELIVERY OF WORKING PAPERS	We encountered difficulties in obtaining working papers for areas of our audit, as these had not been prepared in advance of our onsite visit. These delays were most significant for the payroll information and listings for debtors and creditors to enable audit sampling.	Prepare key working papers and listings in advance of the auditors' onsite visit.	It was proposed to have a meeting with BDO during October to assess the key papers required and make sure these are available from 1 June 2018	We held meetings with the Council and the majority of the working papers on the requested were available from 1 June 2018. However, there have been delays in responding to audit queries.

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING		
	FINAL	PLANNING
Materiality	2,000,000	2,000,000
Clearly trivial threshold	40,000	40,000
Planning materiality of £2,000,000 was based on 2% of 2017/18 budgeted gross expenditure.		
We had no reason to revise our final materiality level.		

APPENDIX IV: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters, which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report were provided in our Audit Plan. These services have been approved by the Assistant Director of Resources.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

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

APPENDIX V: FEES SCHEDULE

	2017/18 FINAL PROPOSED £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	64,672	64,672	64,672	¹
Fee for reporting on the housing benefits subsidy claim	18,533	18,533	18,533	¹
TOTAL AUDIT AND CERTIFICATION FEES	83,205	83,205	83,205	
Fees for reporting on other government grants:				
• Pooling of housing capital receipts return	TBC	TBC	TBC	²
Fees for other non-audit services	-	-	-	
NON-AUDIT ASSURANCE SERVICES	TBC	TBC	TBC	
TOTAL ASSURANCE SERVICES	TBC	TBC	TBC	

¹ The above fees do not differ from those included in the fee letter that we issued on 9 March 2017.

² 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.

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

[XX] July 2018

Dear Sirs

Financial statements of Epping Forest District Council for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Assistant Director of Resources has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, 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 management and other meetings have been made available to you.

APPENDIX V: DRAFT LETTER OF REPRESENTATION

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that as far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Peter Maddock
Assistant Director of Resources
[XX] July 2018

Chair of the Audit and Governance Committee
Signed on behalf of the Audit and Governance Committee
[XX] July 2018

APPENDIX VII: DRAFT AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EPPING FOREST DISTRICT COUNCIL

Opinion on the financial statements

We have audited the financial statements of Epping Forest District Council ("the Council") for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, related numbered notes and the Expenditure and Funding Analysis note to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Epping Forest District Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Assistant Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

APPENDIX VII: DRAFT AUDIT REPORT

Other information

The Assistant Director of Resources is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2017, we are satisfied that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion, published by the National Audit Office in November 2017, as to whether in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The National Audit Office has determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

APPENDIX VII: DRAFT AUDIT REPORT

Based on our risk assessment, we undertook such work as we considered necessary. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Matters on which we are required to report by exception

We have nothing to report in respect of the following other matters which the Code of Audit Practice (April 2015) requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

Responsibilities of the Assistant Director of Resources and the Council

As explained more fully in the Statement of the Assistant Director of Resources Responsibilities, the Assistant Director of Resources is responsible for the preparation of the Statement of Accounts, which comprises the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

In preparing the financial statements, the Assistant Director of Resources is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council intends to cease operations or has no realistic alternative but to do so.

The Council 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 review regularly the adequacy and effectiveness of these arrangements.

APPENDIX VII: DRAFT AUDIT REPORT

Auditor's responsibilities for the audit of the financial statements

In respect of our audit of the financial statements our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Auditor's responsibilities in respect of the Council's use of resources

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criterion specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate of completion of the audit

We certify that we have completed the audit of the accounts of Epping Forest District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Epping Forest District Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other

APPENDIX VII: DRAFT AUDIT REPORT

Use of our report

This report is made solely to the members of Epping Forest District Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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Zoe Thompson
For and on behalf of BDO LLP, Appointed Auditor
Ipswich, UK

31 July 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

APPENDIX VIII: 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 welcomes 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) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a 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 all listed and public interest audits.

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

FOR MORE INFORMATION:

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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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