



Accountants &  
business advisers

# Epping Forest District Council

## Annual Audit Letter 2008/09

Report to Members

December 2009



Local Public Services

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### **Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party

# 1 Executive summary

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have carried out during the year and highlights the key findings that we consider should be addressed by the Council.
- 1.2 We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report. We have no additional recommendations for the Council at this time.

## Key findings

- 1.3 A summary of key conclusions is included in the table below:

Area	Conclusion
<b>Accounts</b>	We issued an <b>unqualified opinion on the financial statements.</b>
<b>Value for money conclusion</b>	We issued an <b>unqualified value for money conclusion.</b>
<b>Use of resources assessment</b>	Our scored judgements for the use of resources assessment were: <ul style="list-style-type: none"> <li>• <b>2 for managing finances: performing adequately</b></li> <li>• <b>2 for governing the business: performing adequately</b></li> <li>• <b>2 for managing resources: performing adequately</b></li> </ul>
<b>Health inequalities</b>	We are satisfied that the Council and the LSP are making good progress in this area and we intend to revisit Health Inequalities by way of a more in-depth follow-up review in 2009/10.

## Acknowledgement

- 1.4 Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda. 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 course of the audit.

## 2 Introduction

### About the Council

- 2.1 Epping Forest District Council is in south west Essex and most of the 131 square miles of the district are green and rural. The population of Epping Forest is around 123,300, with about half living close to its boundary with London and there are six main centres of population.
- 2.2 The Council collects National Non-Domestic rates on behalf of the government and council tax for its own revenue and on behalf of Essex County Council, Essex Police and Essex Fire services. It provides a range of public services to the residents of the District, including:
- Housing and Council tax benefits
  - Waste collection and street cleansing
  - Pest control and environmental health
  - Housing
  - Building regulation surveyors
  - Planning decisions
  - Car parking, taxi licensing and concessionary bus fares
  - Leisure facilities

### The purpose of this Letter

- 2.3 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website at [www.eppingforestdc.gov.uk](http://www.eppingforestdc.gov.uk).

### Responsibilities of the auditors and the Council

- 2.4 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 2.5 As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. 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. We have considered how the Council is fulfilling these responsibilities.

### The scope of our work

- 2.6 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
- the Council's financial statements
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## 3 Key findings

### Accounts

- 3.1 We issued an unqualified opinion on the Council's financial statements on 29 September 2009. Our opinion confirms that the financial statements present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.

#### *Key issues arising from the audit*

- 3.2 As reported in our Annual Governance Report in September 2009, improvements to the accounts preparation process were noted but an error of £1.05m was identified as a result of audit work, which related to the valuation and impairment of the Council's housing stock, which had a closing net book value of £500m. This was individually material but when aggregated with other errors the net impact on the impairment figure was less than material. There were also a number of non-trivial, but not material, errors identified and corrected.
- 3.3 Overall, the net impact of the corrections made to the financial statements, as a result of the audit, was to increase the reported deficit on the Income and Expenditure Account by £721,000 which was below our materiality level. However, the nature of some of the adjustments was such that they were reversed out through the Statement of Movement on the General Fund Balance and the overall net impact of the amendments on the General Fund balance was to increase it by £246,000.
- 3.4 We undertook specific additional testing to ensure that the disclosures in respect of the Council's two Heritable Bank investments, totalling £2.5m, were in accordance with guidance provided by CIPFA. No errors were identified from the procedures carried out and we concluded that the investment, and its impairment, had been appropriately accounted for. We also considered the impact of the investments on the overall financial standing of the Council and concluded that in light of the anticipated 80% recovery rate projected by the bank's Administrators, and the combined General Fund and Earmarked Reserves Balances of £17m, the impact is not significant.

### Use of resources

- 3.5 The Code requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This is known as the value for money conclusion and draws on the results of specific risk based audit work as well as the results of our use of resources assessment.

#### *Specific risk-based work – health inequalities*

- 3.6 We carried out a specific piece of work based on our assessment of the key risks facing the Council which focussed on partnership working around the health inequalities agenda.
- 3.7 Our objective for 2008/09 was to monitor Local Strategic Partnership (LSP) level action planning in response to our Essex-wide primary review in 2007/08, reported in March 2008. Our review considered a number of structural and other arrangements changes already achieved and also other development plans being progressed. We concluded that the Council and the LSP are making good progress in this area.
- 3.8 We will be undertaking a full-scale follow-up in early 2010 when process changes and impact and outcomes will be assessed in more detail.

## Use of resources assessment

3.9 We are required to assess how well local authorities manage and use their financial resources by providing scored judgements on the Council's arrangements in three specific areas. Our assessment forms part of the Audit Commission's new Comprehensive Area Assessment (CAA) for 2008/09 and **is not comparable with 2007/08 or earlier years' scores.**

3.10 Our scores for each key line of enquiry are shown below:

Theme	2008/09
<b>Managing Finances</b>	
• Planning for financial health	2
• Understanding costs and achieving efficiencies	2
• Financial reporting	2
Theme score	<b>2</b>
<b>Governing the business</b>	
• Commissioning and procurement	2
• Use of information	2
• Good governance	2
• Risk management and internal control	2
Theme score	<b>2</b>
<b>Managing resources</b>	
• Natural resources	N/A <sup>1</sup>
• Strategic asset management	N/A <sup>2</sup>
• Workforce	2
Theme score	<b>2</b>
<b>Overall score</b>	<b>2</b>

3.11 We concluded that the Council has adequate arrangements in place in respect of managing finances, governing the business and managing resources.

3.12 The Council now needs to focus on demonstrating that in 2009/10 it has realised the benefit of positive outcomes from its arrangements, and that those arrangements are extended to encompass a greater range of level 3 characteristics, in order to advance. For example:

- demonstrating that the improved strategic and operational planning arrangements implemented for 2009/10 have resulted in positive outcomes in the delivery of its strategic objectives
- demonstrating that the Council's VFM Strategy has been implemented and, as a result, greater VFM has been achieved
- making comprehensive use of benchmarking and cost analysis in service evaluation, performance reporting and procurement

<sup>1</sup> Not scored in 2008/09 – part of cyclical targeting

<sup>2</sup> Not scored in 2008/09 – part of cyclical targeting

- including forecast outturn information in budget reporting tools
  - developing a more strategic, co-ordinated approach to directing and monitoring commissioning and procurement activities across the whole range of Council activities, in particular demonstrably linking the Procurement Strategy to the VFM Strategy
  - reviewing partnership data quality and governance arrangements and enhancing the mechanisms for evaluating the effectiveness of key partnerships in delivering value for money and the monitoring and reporting of partnership work
  - securing further improvements towards the Government's enhanced equalities framework for local authorities
  - greater integration of the workforce development plans with the overall corporate planning process and the resultant service level plans.
- 3.13 The results of our use of resources assessment have been shared with the Audit Commission as part of the integrated approach to developing CAA. The results of CAA will be reported separately by the Audit Commission.

### ***Value for money conclusion***

- 3.14 Taking into account our work on use of resources, we have concluded that adequate arrangements are in place to secure value for money and have provided an unqualified value for money conclusion for the year ended 31 March 2009.

### **Grants**

- 3.15 Two of the six grant claims were qualified this year, with a further two requiring amendments to the claim before an unqualified opinion was issued. Additional testing had to be undertaken and additional enquiries made in order to resolve issues identified and make appropriate corrections to claims. Nevertheless, it has been noted that improvements have been made in the preparation of these claims since the prior year.
- 3.16 A separate grants report will be issued by February 2010 which will discuss the detail of the certification of the Council's grant claims.

### **Emerging issues**

#### ***Current economic climate***

- 3.17 In response to the continued economic downturn, the Council has carried out a review of its position and the impact of the recession on all aspects of its operation. This identified a number of risk areas such as reduction in income from fees and charges. It also identified the need to keep the level of the impairment of Icelandic bank investments under review. Action is being taken to mitigate these risks and their financial impact is being actively monitored.

#### ***Treasury management***

- 3.18 Following the collapse of the Icelandic banks in October 2008 the Audit Commission conducted a study to examine treasury management arrangements in local authorities. The resulting report *Risk and Return* was published in March 2009 and in this report the Audit Commission committed to asking auditors to follow up the lessons from the report as part of their use of resources work.
- 3.19 We concluded from this work, and from work on treasury management reported by Internal Audit, that the Council's treasury management arrangements are satisfactory and the Council has taken action to strengthen its arrangements in light of the collapse of the Icelandic banks.

### ***Members' allowances***

- 3.20 The Local Authorities (Members' Allowances) (England) Regulations 2003 (members' allowances regulations) include a requirement for councils to publish annually amounts paid to each member for different types of allowances. As in previous years and in accordance with the SORP, the Council included in a note to the accounts the total amounts paid to members during 2008/09 and publicised more detailed disclosures on its website. It is not a requirement of the members' allowances regulations to disclose amounts paid to each member within the financial statements, however in light of the recent publicity surrounding MPs' expenses the Council made this full disclosure within the financial statements.

### ***International financial reporting standards***

- 3.21 International Financial Reporting Standards (IFRS) will be adopted in local government from 2010/11 and require transitional arrangements to be put in place by the Council. The Audit Commission is undertaking a national study on the implementation of IFRS in local government to assess the progress being made by authorities towards preparing IFRS-based accounts. As part of this study and our use of resources work, we have reviewed the Council's progress in this area. Our initial assessment is that the Council has appropriate plans in place to implement IFRS but that there is potentially still a considerable amount of work to be done to identify all areas of the accounts that require restatement and to calculate the resultant effect on the accounts.



## Appendix: Reports issued in relation to the 2008/09 audit

Report	Date Issued
Annual audit plan	May 2008
Annual governance report	September 2009
Use of resources assessment	December 2009