



# EPPING FOREST DISTRICT COUNCIL

Annual Audit Letter 2012/13

October 2013

# EXECUTIVE SUMMARY

## Background

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders and members of the public.

It is the responsibility of the Council to publish this on the Council's website.

## Responsibilities of auditors and the council

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.

As the 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.

## Scope of the audit

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 Statement of Accounts
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission, grant claims and returns certification work and whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter.

Our work on the audit of the grant claims and other returns for 2012/13 is in progress and we will report the findings from this work in December 2013.

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.

## Key findings

	<b>STATEMENT OF ACCOUNTS</b>
<b>1</b>	We issued an unqualified true and fair opinion on the financial statements on 27 September 2013. No material misstatements were identified during the audit. There were a number of unadjusted audit differences identified by our audit work; the net effect of adjusting for these differences would be to increase the surplus for the year by £116,000.
	<b>USE OF RESOURCES</b>
<b>2</b>	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We issued an unqualified value for money conclusion on 27 September 2013.
	<b>OTHER MATTERS</b>
<b>3</b>	We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE). The Council's WGA is below the threshold for full assurance review, and we completed a short-form assurance review which confirmed that the information for property, plant and equipment and for the net pension liability was consistent with the audited financial statements.
	<b>GRANT CERTIFICATION</b>
<b>4</b>	Overall, there were improvements noted in the control environment for the 2011/12 Housing and Council Tax Benefit Subsidy claim and there were, as a consequence, fewer errors identified compared to previous years, although we qualified the claim in accordance with the mandated approach. No other claims that we certified for 2011/12 were qualified.

# STATEMENT OF ACCOUNTS

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OPINION

We issued an unqualified true and fair opinion on the financial statements on 27 September 2013.

## Financial statements

The following misstatements were identified and corrected during the audit:

- re-classification of assets held for sale £515,000 from long term assets to current assets on the balance sheet
- our testing of the implementation of a new property management system identified an issue regarding the Revaluation Reserve where an adjustment, amounting to £423,000, should have been made in prior periods and therefore the Revaluation Reserve has been reduced, and the Capital Adjustment Account increased, by this amount.
- a number of disclosures and presentation amendments were also made to the final audited financial statements.

Four current year misstatements were identified that were not corrected in the final published financial statements:

- **HRA income:** our testing identified income of £81,000 that had been incorrectly netted down with the Repairs and Maintenance expenditure line
- **Completeness of land:** our testing identified some pieces of land that belonged to the Council but were not included in the fixed asset register. These pieces of land were not material but we recommended that the Council identifies these pieces of land and include them as part of the revaluation programme.
- **Provisions:** our testing identified that expenditure and provisions were understated by £84,000, although this expenditure would have been funded from an earmarked reserve and therefore there would be no net impact on the HRA balance
- **Major Repairs Reserve:** our testing identified that the Major Repairs Reserve had been understated by £423,000, with the HRA reserve being overstated by the same amount

The overall impact of correcting for these remaining misstatements would result in the Council reporting a £116,000 higher surplus for the year. Management considered that these uncorrected misstatements did not have a material impact on the financial statements, either individually or in aggregate, and the Audit and Governance Committee accepted their assertion that the misstatements need not be corrected for this reason. We

consider that these misstatements did not have a material impact on our opinion on the financial statements.

## Internal controls

No significant deficiencies were identified during our review. However, some areas for improvement were identified which we have discussed verbally with management.

# USE OF RESOURCES

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## CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We issued an unqualified value for money conclusion on 27 September 2013.

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We also updated our knowledge of the Council's governance arrangements, financial, performance and risk management arrangements and reviewed the Audit Commission's financial ratios data and value for money tool and discussed the findings with management.

## Financial resilience

The 2012/13 financial statements report that the Council has achieved an underspend of £498,000 against the revised budget for 2012/13 and has recognised a increase of £1,926,000 in its usable reserves (comprising the general fund, earmarked reserves, housing revenue account, capital receipts reserve, major repairs reserve and capital grants unapplied) when compared to the closing balances in 2011/12.

The Council has set a balanced budget for 2013/14 and had identified required savings prior to the start of the year. From our review of current documentation, the Council is on track to deliver its 2013/14 budget. The Council also has a good track record of achieving budgets and its financial management arrangements have put the Council in a relatively strong position of having built up good levels of funds and reserves to support it in its response to the continued financial pressures faced.

The medium term financial plan forecasts that it will be necessary to utilise reserves until 2016/17. However, at the end of this period it is estimated that revenue reserves will still be approximately £7.8m, which is more than twice the minimum level of reserves necessary to comply with the Council's financial management policies.

The Council already outsources a number of services in order to achieve savings and has been actively reviewing the on-going value for money (VFM) of these arrangements.

## Challenging economy - efficiency - effectiveness

The Council has continued to review and consolidate its baseline arrangements for challenging and securing value for money during 2012/13. The arrangements operated during the year remain adequate. Business plans continue to outline annual value for money considerations and implications for each service and include benchmarking comparisons where appropriate.

Performance management and risk management arrangements that support the achievement of value for money are evidenced as continuing to operate as previously assessed with no contra-indicators.

The Council makes use of consultation, option appraisal and partnership working to assist in achievement of savings and delivery of improved services.

## OTHER MATTERS

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### REPORT BY EXCEPTION

We have no other matters to report.

### Annual Governance Statement

We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

### Whole of Government Accounts

The Council’s WGA is below the threshold for full assurance review, and we completed a short-form assurance review which confirmed that the “property, plant and equipment carrying amount at 31 March 2013” and the “net funded pension balance” was consistent with the audited financial statements.

## GRANT CERTIFICATION

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### SUMMARY FINDINGS

Overall, there were improvements noted in the control environment for the 2011/12 Housing and Council Tax Benefit Subsidy claim and there were, as a consequence, fewer errors identified compared to previous years, although we qualified the claim in accordance with the mandated approach. No other claims that we certified for 2011/12 were qualified.

This Annual Audit Letter reports on the findings of our 2011/12 certification work which was completed and reported to the Audit and Governance Committee since the issue of our 2011/12 Annual Audit Letter. Our work on certifying 2012/13 grant claims is ongoing and findings will be reported when this work is complete.

### Housing and Council Tax Benefits

Improvements noted in the control environment for the 2011/12 Housing and Council Tax Benefit Subsidy claim and there were, as a consequence, fewer errors identified compared to previous years. However, there were three issues identified which resulted in minor claim amendments (for confirmed, isolated errors) and extrapolated (estimated) errors for systematic issues. The net reduction to the claim was approximately £200, which is small in the context of a £45m total claim value.

### Other schemes


The Housing Revenue Account subsidy, National Non-Domestic Rates (NNDR) return and Pooled Capital Receipts returns for 2011/12 were all certified without qualifications.

# APPENDIX

## Reports issued

We issued the following reports in respect of the 2012/13 financial year.

REPORT	DATE
Planning letter	December 2012
2011/12 Grant Claims and Returns Certification Report	January 2013
Audit Plan	April 2013
Final Audit Report	September 2013
Annual Audit Letter	October 2013



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. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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