



EPHING FOREST DISTRICT COUNCIL

AUDIT PLAN TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ending 31 March 2017

Date of issue: 10 March 2017

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INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of Epping Forest District Council (“the Council”) for the year ending 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Governance Committee.

In preparing this report, we do not accept or assume responsibility for any other purpose. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM

Core team	Name	Contact details	Key responsibilities
Zoe Thompson Engagement Lead	Zoe Thompson Engagement Lead	Tel: 01473 320734 zoe.thompson@bdo.co.uk	Oversee the audit and sign the audit report
Barry Pryke Project Manager	Barry Pryke Project Manager	Tel: 01473 320793 barry.pryke@bdo.co.uk	Management of the audit
Puyan Mani Senior	Puyan Mani Senior	Tel: 0207 893 3596 puyan.mani@bdo.co.uk	Day to day supervision of the audit team

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

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

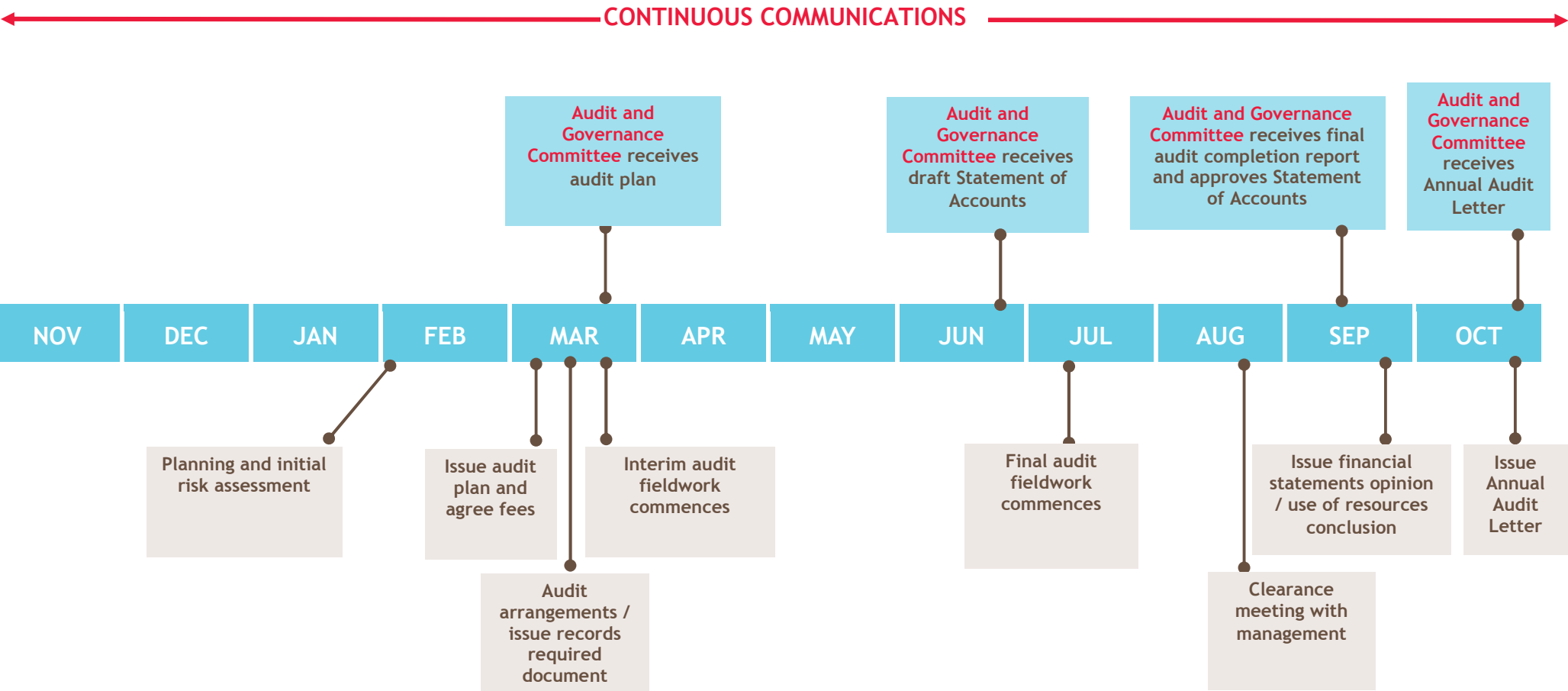
- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

She is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

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



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

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

Our objective is to form an opinion on whether:

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

ADDITIONAL POWERS AND DUTIES

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

COUNCIL MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Epping Forest District Council	£1,900,000	£38,000

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

Planning materiality for the Council has been based on 2% of the budgeted gross expenditure. At this stage, the figure is based on the 2015/16 audited outturn gross expenditure. This will be revisited when the draft financial statements are received for audit.

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

OVERALL AUDIT STRATEGY

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

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

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

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

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

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

Audit risks and planned audit responses

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

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

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement

uncertainty

- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

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

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

Internal audit

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

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

Fraud risk assessment

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

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

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

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

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<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 International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	Not applicable.
Revenue recognition	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.</p> <p>We also consider there to be a significant risk in relation to the existence of fees and charges and investment rental income recorded in the CIES.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Carry out audit procedures to gain an understanding of the authority's internal control environment for the significant income streams, including how this operates and ensure that income is recognised. • Substantively test an increased sample of income streams from source document to the general ledger, testing income to supporting documentation. 	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Property, plant and equipment valuations	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.</p> <p>The fair value for land and buildings, including Epping Forest Shopping Park, in PPE and investment properties is a management estimate based on market values or depreciated replacement cost (DRC). Management use external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation. For investment properties the council use an in house RICS qualified valuer.</p> <p>There is a risk over the valuation of land and building as the valuations are based on assumptions that are uncertain by nature, if inappropriate or inaccurate assumptions are used in the calculation of fair values.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert Confirm that the basis of valuation for assets valued in year is appropriate based on their usage Confirm that an instant build modern equivalent asset basis has been used for assets valued at DRC Review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices. 	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>
Pension liability assumptions	<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</p>	<p>We will:</p> <ul style="list-style-type: none"> Agree the disclosures to the information provided by the pension fund actuary. We will contact the administering authority and request confirmation of the controls in place for providing accurate membership data to the actuary. We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. 	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
	membership data or uses inappropriate assumptions to value the liability.		
Changes in presentation of the financial statements	<p>The Code requires a change to the presentation of some areas of the financial statements. This includes:</p> <ul style="list-style-type: none"> • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) • Change to the format of the Movement in Reserves Statement (MIRS) • New Expenditure and Funding Analysis (EFA) note • Change to the Segmental Reporting note • New Expenditure and Income analysis note. <p>These changes will require a restatement to the 2015/16 CIES.</p> <p>There is a risk that these presentational changes are not correctly applied in the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Review the draft financial statements and check these against the CiPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements. 	Not applicable.
Consideration of related party transactions	<p>We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions. • Discuss with management and review councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us. 	Companies House searches for undisclosed interests.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
	We have not identified any significant risks in relation to use of resources at the planning stage. We will notify the Audit and Governance Committee of any changes should our assessment change.		

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Governance Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2017.

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

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

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

On the following page, we have recorded details of any non audit services and have documented above where these potentially present threats to our independence and safeguards in place OR We do not plan to provide any non audit services.

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

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
---------------------	--------------------------

Zoe Thompson - Engagement lead

1

Barry Pryke - Project manager

4

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

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 are:

	2016/17 Proposed fee £	2015/16 Actual fee £
Code audit fee	64,672	64,672
Certification fee (Housing benefits subsidy)	18,533	18,533
Total code audit and certification fees:	83,205	83,205
Fees for non audit services - audit related (see below)	TBC	2,000
Fees for non audit services - other	-	-
TOTAL FEES	TBC	85,205

NON AUDIT SERVICES FEES ANALYSIS

Audit related services:

Pooled capital receipts certification fee	TBC
Total	TBC

The above fees do not differ from those included in the fee letter that we issued 16 March 2016.

Billing arrangements

We will raise invoices for the Code audit fee on a quarterly basis, at £16,168 per quarter, from June 2016. Following our firm's standard terms of business, full payment will be due within 14 days of receipt of invoice. Fee invoices for other services, including the certification of the housing benefits subsidy claim, will be raised as the work is completed.

In 2015/16, 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 2016/17, we will report the fee to the Audit and Governance Committee once agreed with management.

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Director of Resources. Where this requires a variation to the scale fee we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Governance Committee. At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY


Continued

REASSESSMENT OF MATERIALITY

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

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit and Governance Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Audit and Governance Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.



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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