

# ***Supplementary Committee Agenda***



**Epping Forest  
District Council**

---

## ***Finance and Performance Management Cabinet Committee Thursday, 15th September, 2016***

**Place:** Committee Room 2, Civic Offices, High Street, Epping

**Time:** 6.00 pm

**Democratic Services:** R. Perrin Tel: (01992) 564532  
Email: [democraticservices@eppingforestdc.gov.uk](mailto:democraticservices@eppingforestdc.gov.uk)

### **9. ANNUAL GOVERNANCE REPORT (Pages 3 - 36)**

(Director of Resources) To consider the attached report (FPM-012-2016/17).

**This page is intentionally left blank**



# EPPING FOREST DISTRICT COUNCIL

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2016 - Issued - 7 September 2016



## PURPOSE AND USE OF THIS REPORT

We present our report to the Audit and Governance Committee which details the key findings arising from the audit for the attention of those charged with governance. 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.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

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 providing our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements and provide a value for money conclusion, 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.

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 or to any other person.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.



# CONTENTS

SUMMARY	5	APPENDICES	
KEY AUDIT AND ACCOUNTING MATTERS	6	I. DEFINITIONS	23
SUMMARY OF AUDIT FINDINGS	14	II. AUDIT DIFFERENCES	24
OUTSTANDING MATTERS	17	III. RECOMMENDATIONS AND ACTION PLAN	26
OTHER REPORTING MATTERS	18	IV. MATERIALITY	27
WHOLE GOVERNMENT ACCOUNTS	19	V. INDEPENDENCE	28
USE OF RESOURCES	20	VI. FEES SCHEDULE	30
		VII. DRAFT REPRESENTATION LETTER	31
		VIII. AUDIT QUALITY	33

# SUMMARY

## AUDIT SCOPE AND OBJECTIVES

- We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to the resolution of matters set out in the outstanding matters section of this report
  - There were no significant changes to our planned audit approach nor were any restrictions placed on our work
  - We identified one additional significant audit risk, relating to the valuation of land and buildings, during the course of our audit procedures subsequent to our Audit Planning Report to you dated 14 March 2016
- Our materiality levels have not required reassessment since our audit planning referred to above.

## KEY AUDIT AND ACCOUNTING MATTERS

- The key matters that have arisen in the course of our audit are summarised below:
  - i. Following a review of infrastructure and community assets, officers identified a number of assets for which the Council is no longer responsible. These assets have been written out of the accounts. Although officers engaged with us to discuss possible accounting treatments, no working paper was prepared to support the initial treatment applied, which was found to be incorrect. Management amended the financial statements to reflect the correct treatment.
  - ii. The related parties identified in the draft financial statements did not meet the definition of such transactions as defined by accounting standards. We identified that no formal assessment of the relationships disclosed had taken place. Management have removed the incorrect disclosures from the financial statements.
  - iii. We have tested a sample of assets from the asset register to confirm their existence. We have identified that the Council are unable to confirm the location of some works relating to off-street parking associated with Council dwellings due to the time elapsed since the expenditure was incurred.

## AUDIT OPINION

- Subject to the successful resolution of outstanding matters set out in the outstanding matters section of this report we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016
- We have no matters to report in relation to the annual governance statement
- We are satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources and we anticipate issuing an unqualified value for money conclusion for the year ended 31 March 2016.

## OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND GOVERNANCE COMMITTEE

- The Council is below the audit threshold for a full assurance review of the Whole of Government Accounts (WGA) return
- Our observations on the quality of the audit and our audit independence and objectivity and related to matters are set out in Appendices VIII and V below.

# KEY AUDIT AND ACCOUNTING MATTERS

## SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and that we have concluded are “significant audit risks”, in the 2015/16 Audit Planning Report dated 14 March 2016. These significant risks have been highlighted in red and findings have been reported in the following table.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council’s internal control environment and draft financial statements. We have identified a further significant risk in relation to the valuation of land and buildings.

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	<p>Auditing standards presume that a risk of management override of controls is present in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments to the financial statements.</p> <p>We also reviewed accounting estimates for evidence of possible bias and obtained an understanding of the business rationale of significant transactions that appeared to be unusual.</p>	<p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments made to the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p>
REVENUE RECOGNITION	<p>Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council’s stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p> <p>We consider that, due to the nature of the transactions, this risk is significant in respect of income from fees and charges where the revenue is generated from the raising of invoices and the collection of cash and direct payments arising from payments made for Council services.</p>	<p>We gained an understanding of the authority’s internal control environment for the significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.</p> <p>We substantively tested an increased sample of receipts either side of the year end to ensure that income is complete, accurately recorded and earned in the year.</p>	<p>No issues have been identified by our testing of revenue from fees and charges.</p>



# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
<p>Property, plant and equipment valuations</p>	<p>Property, plant and equipment (including investment properties) have been revalued during the year. The valuations were based on assumptions that are uncertain by nature. There is a risk of material misstatement if inappropriate or inaccurate assumptions are used in the calculation of fair values. We highlighted this as a risk of material misstatement in our Planning Report in March 2016.</p> <p>Our initial review of the Council's draft financial statements has identified a significant movement on the value of property, plant and equipment. We confirmed that this is primarily due to the revaluation undertaken during the year, which has resulted in the value of property, plant and equipment and investment properties increasing by approximately 20% and 47% respectively when compared to the net book value of these assets at 31 March 2015. Management engaged external valuers to undertake these revaluations.</p> <p>The extent of these increases was substantially higher than our expectations (which are based on the increases in property prices suggested by published indices). We therefore considered that the valuation of property, plant and equipment (including investment properties) presented a significant risk of material misstatement.</p>	<p>We reviewed the significant assumptions used by the valuers for accuracy and reasonableness.</p> <p>We confirmed that the basis of valuation for assets valued in year was appropriate based on their usage and that the movement in values were explained by the wider market factors.</p> <p>We considered the independence, objectivity and competence of the external valuers engaged by management.</p>	<p>Our review of the valuation of council dwellings, other land and buildings and investment properties confirmed that they agreed to the respective valuation reports.</p> <p>We have reviewed the assumptions used in the valuation of properties and concluded that they are not unreasonable.</p> <p>For council dwellings, we have obtained local property price data from the Land Registry website which showed a much higher percentage increase in property prices compared to the average increase shown on the published indices for Eastern region (which was used to form the expectations applied during our initial review of the accounts). We have also reviewed comparable sales data on which the valuations were based upon and concluded that the two are consistent. We agreed comparable sales data given on the valuation report to the published property sales information.</p> <p>We have discussed the valuation of investment properties with the external valuer to confirm the nature of the information taken into account when completing the valuation. We are satisfied that the details of the Council's investment property portfolio provided to the valuer were accurate and complete.</p> <p>We have assessed the competence, independence and objectivity of the valuers involved in both valuations and have not identified any issues.</p> <p>We have confirmed that the valuations are accurately reflected in the financial statements.</p> <p>Further details on our view of this valuation estimate are provided on page 9.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

### OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Normal risk** ■ **Other issue**

Page 10

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
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 pension liability recognised in the Council’s financial statements to the information provided by the actuary.</p> <p>We have reviewed the assumptions used by the actuary for reasonableness and have no matters to report.</p> <p>We are satisfied that the information used by the actuary regarding membership data was consistent with the Council’s records.</p> <p>Further details on our view of this estimate are provided on page 10.</p>
RELATED PARTY TRANSACTIONS	<p>We reviewed the Council’s procedures for identifying related party transactions for disclosure in the related parties note, including signed declaration forms from members and senior officers. We carried out Companies House checks for a sample of members and senior officers and checked the completeness of interests included in the declaration forms. We also considered the completeness of related party disclosures based on knowledge gained from our other audit work.</p>	<p>Our audit identified that those individuals and organisations disclosed as related parties in the draft financial statements did not meet the definition of related parties as per accounting standards.</p> <p>Management have agreed to amend the disclosure.</p> <p>We have raised a recommendation regarding this matter (see Appendix III).</p>
EXISTENCE OF ASSETS	<p>For a sample of property, plant and equipment recorded on the Council’s asset register, we obtain evidence to confirm that the asset exists.</p> <p>Included in our sample were two items relating to works in respect of off street parking areas associated with council dwellings. Due to the age of these assets, officers were unable to confirm the location of these works and we have therefore been unable to confirm that the associated assets exist.</p> <p>Further work has been undertaken to quantify the impact of this issue. The net book value of affected assets included in the Council’s asset register is £330,000.</p>	<p>We were unable to verify the existence of assets relating to works in respect of off street parking areas associated with council dwellings</p> <p>The total value of the type of asset affected is such that we are satisfied that the issue identified is not indicative of a material overstatement of the value of council dwellings. We were able to verify the existence of all other assets in our sample and this has historically been the case in prior years.</p> <p>We have raised a recommendation regarding this matter (see Appendix III).</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

### OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Normal risk** ■ **Other issue**

Page 11

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
<p>WRITE-OFF OF NON CURRENT ASSETS</p>	<p>During the year, the Council reviewed the assets classified within Infrastructure, Community and Assets under Construction. Officers concluded that some of the assets were either transport related (and therefore belong to the County Council) or were related to a former waste disposal site which is now a park and no longer formed part of the asset. These assets (which had a value of £8.4m) were written out of the financial statements by restating 2014/15 values, including the recognition of an exceptional item in the Comprehensive Income and Expenditure Statement.</p> <p>We reviewed the accounting treatment applied in the draft financial statements to ensure that it was consistent with the requirements of the Code and applicable financial reporting standards.</p> <p>This identified that the write-off had been incorrectly accounted for. Although it was correct to treat the write-off as a prior period adjustment, this should have been accounted for by restating the opening balances for the 2014/15 financial year (so recognising the correction related to <i>before</i> 2014/15) and not by only restating the 2014/15 Comprehensive Income and Expenditure Account (which would have shown the change occurring <i>during</i> 2014/15).</p>	<p>Management have amended the financial statements to correctly reflect the write-off of assets which are not owned by the Council. In accordance with the Code and applicable financial reporting standards, a third balance sheet has been prepared showing restated opening balances for the 2014/15 financial year.</p> <p>We are satisfied that the financial statements are now materially accurate in relation to this issue.</p> <p>Although officers engaged with us to discuss the possible accounting treatments, we note that officers did not prepare a working paper to demonstrate how the treatment applied was consistent with the requirements of the Code.</p> <p>We have raised a recommendation regarding this matter (see Appendix III).</p>
<p>FRAUD AND ERROR</p>	<p>We enquired of management regarding any instances of fraud in the period, and considered throughout the audit the possibility of material misstatements due to fraud or error.</p> <p>We are not aware of any instances of fraud other than housing benefit and housing tenancy fraud committed against the Council.</p>	<p>Our audit procedures have not identified any material errors due to fraud.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

### ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities, arrived at the preparation of your financial statements are set out below.

We have assessed how prudent or aggressive the estimate is based on the level of caution applied by management in making the estimate under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenditure are not understated.

Page 12

#### ESTIMATES

##### PROPERTY, PLANT & EQUIPMENT (PPE) AND INVESTMENT PROPERTY VALUATIONS

Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) and investment properties is not materially different to the current value or fair value at the Balance Sheet date.

The valuation for council dwellings and land and buildings included in PPE is a management estimate based on market values or depreciated replacement cost (DRC). Management employs external experts (valuer) to undertake valuations. Council dwellings are revalued every year. Other assets are revalued as part of the Council's rolling revaluation programme which ensures all assets are revalued at least once every five years.

The Code of Practice on Local Authority Accounting 2015/16 (the Code) introduced a change in the basis of valuation of surplus assets and investment properties under International Financial Reporting Standard (IFRS) 13, from existing use value (in the case of surplus assets) or market value (in the case of investment properties) to a 'highest and best use' valuation. This means that valuations may be significantly different in certain circumstances.

#### AUDIT FINDINGS AND CONCLUSIONS

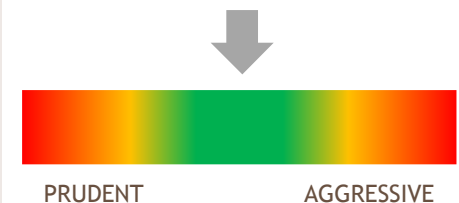
The Council engaged an external valuer to value its council dwellings, certain items of other land and buildings and investment properties as at 28 February 2016. We have reviewed relevant indices and other market information to confirm that there has been no material movement in property prices between the valuation date and the balance sheet date.

This resulted in a net upwards revaluation movement of £105.545 million in the year for council dwellings, a net upwards revaluation movement of £20.036 million for investment properties and a net downwards revaluation movement of £1.347 million for other land and buildings.

We assessed the valuers' competence, independence and objectivity and determined we could rely on the management expert.

We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements.

We compared the valuations to expected movements using available market information and concluded that the movements are within expectations.



# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

### ESTIMATES

#### PENSION LIABILITY ASSUMPTIONS

The pension liability comprises the Council's share of the market value of assets held in the Essex Pension Fund and the estimated future liability to pay pensions.

An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.

We have reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report.

### AUDIT FINDINGS AND CONCLUSIONS

As at 31 March 2016 net pension liabilities disclosed in the Balance Sheet decreased by £2.948 million compared to the balance at 31 March 2015.

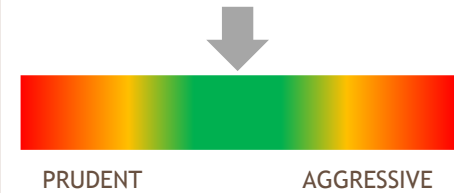
It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments (for those benefits) there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement.

The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council's liabilities as at 31 March 2016 the actuary has rolled forward the value of the liabilities calculated at the latest formal valuation, allowing for up to date financial assumptions.

The key changes to the financial assumptions relate to:

- an increase in the pension increase rate from 2.20% to 2.30%
- an increase in the salary increase rate from 4.00% to 4.10%
- an increase in the discount rate from 3.20% to 3.50% (to place a current value on the future liabilities through the use of a market yield of corporate bonds).

These changes have resulted in the decrease in the present value of the scheme liabilities at 31 March 2016. We have compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.

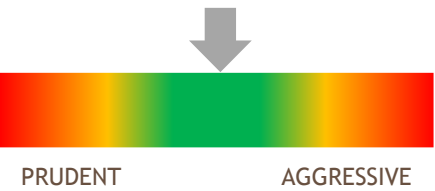


# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

Page 14

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
<p><b>ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES</b></p> <p>The Council's largest allowances for impairment of receivables relate to housing benefit overpayments and other outstanding general fund receivables.</p> <p>The Council estimates the housing benefits overpayments impairment allowance based on the age of the outstanding receivable. A similar methodology is applied to general fund receivables.</p> <p>We have reviewed management's calculations and considered the reasonableness of the estimates against collection rates calculated for the current aged debt profile.</p>	<p>Overall, we have concluded that the impairment allowances for receivables are reasonable.</p> <p><b>Housing benefit overpayments</b></p> <p>The impairment allowance at 31 March 2016 is £1.631 million, an increase of £340,000 from the prior year, against an overpayments balance of £2.736 million. The percentage is applied to outstanding balance, ranging from 10% for balances outstanding for between 0 and 2 months to 70% and 90% for those debts between 1 and 5 years old and older than five years respectively.</p> <p>Although the percentages applied are consistent with prior years and we are satisfied that the impairment allowance is not materially misstated, Management have been unable to demonstrate that the percentages applied to categories of aged debt are based on actual collection rates.</p> <p><b>General fund debtors</b></p> <p>The total impairment allowance for general fund debtors as at 31 March 2016 is £552,585, an decrease of £256,000 from the prior year, against total arrears of £1.838 million.</p> <p>Whilst we are satisfied that the impairment calculation is not materially misstated, actual recovery rates are difficult to obtain from AIMS, making it difficult for Management to obtain information to support the estimate.</p> <p>We have raised a recommendation regarding the calculation of impairment allowances (see Appendix III).</p>



# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

### FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
ACCOUNTING POLICIES	We are satisfied that the accounting policies adopted by the Council are consistent with the requirements of the Code.
IMMATERIAL DISCLOSURES	<p>We review the financial statements for such disclosures on an annual basis and will discuss any items which we consider to be unnecessary with officers. In previous years, we have worked with officers to identify and remove immaterial disclosures from the financial statements.</p> <p>We are satisfied that the financial statements do not contain any immaterial disclosures.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

### OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

MATTER		COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements	See our Audit Planning Report to you dated 14 March 2016.
2	An overview of the planned scope and timing of the audit	See our Audit Planning Report to you dated 14 March 2016.
3	Significant difficulties encountered during the audit	We have no matters to report.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process	All such matters have been dealt with elsewhere in this report.
5	Written representations which we seek	These are reproduced at Appendix VII.
6	Any fraud or suspected fraud issues	We have no matters to report.
7	Any suspected non-compliance with laws or regulations	We have no matters to report.
8	Uncorrected misstatements, including those relating to disclosure	A schedule of uncorrected misstatements is included at Appendix II.
9	Significant matters in connection with related parties	All relevant matters have been included within this report.

















# SUMMARY OF AUDIT FINDINGS

STATUS		REPORTING LEVEL	
<span style="color: red;">●</span>	Not started	●	Significant issue
<span style="color: yellow;">●</span>	In progress	●	Raised for your attention
<span style="color: teal;">●</span>	Complete	●	No issue identified

AUDIT WORK STATUS		REPORTING LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
<span style="color: teal;">●</span>	Journals	<span style="color: teal;">●</span>	N	N	N	N
<span style="color: yellow;">●</span>	Property, plant and equipment	<span style="color: yellow;">●</span>	Y	Y	N	Y
<span style="color: teal;">●</span>	Debtors	<span style="color: teal;">●</span>	N	N	N	N
<span style="color: teal;">●</span>	Cash and cash equivalents	<span style="color: teal;">●</span>	N	N	N	N
<span style="color: yellow;">●</span>	Short and long term investments	<span style="color: teal;">●</span>	N	N	N	N
<span style="color: teal;">●</span>	Creditors	<span style="color: teal;">●</span>	N	N	N	N
<span style="color: teal;">●</span>	Short and long term borrowing	<span style="color: teal;">●</span>	N	N	N	Y
<span style="color: teal;">●</span>	Employee benefits	<span style="color: teal;">●</span>	N	N	N	N
<span style="color: yellow;">●</span>	Other expenditure	<span style="color: teal;">●</span>	N	N	N	N
<span style="color: teal;">●</span>	Grant income	<span style="color: teal;">●</span>	N	N	N	N
<span style="color: teal;">●</span>	Other income	<span style="color: teal;">●</span>	N	N	N	N
<span style="color: teal;">●</span>	Collection fund	<span style="color: teal;">●</span>	N	N	N	N
<span style="color: teal;">●</span>	Housing Revenue Account	<span style="color: teal;">●</span>	N	N	N	N
<span style="color: teal;">●</span>	Related party transactions	<span style="color: yellow;">●</span>	Y	Y	N	Y
<span style="color: yellow;">●</span>	Financial instruments	<span style="color: teal;">●</span>	N	N	N	N
<span style="color: yellow;">●</span>	Cash Flow Statement	<span style="color: teal;">●</span>	N	N	N	N

# SUMMARY OF AUDIT FINDINGS

STATUS		RISK LEVEL	
	Not started		Significant issue
	In progress		Raised for your attention
	Complete		No issue identified

AUDIT WORK STATUS		REPORTING LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
	Whole of Government Accounts		N	N	N	N
	Annual Governance Statement		N	N	N	N
	Narrative Report		N	N	N	N
	Use of resources		N	N	N	N

# OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2016, and anticipate issuing an unqualified opinion on the financial statements.

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 at which this report is considered:

1  
2  
3  
4  
5  
Page 19

1 Completion of those areas of the audit highlighted as in progress in the “Summary of audit findings” section.

2 Clearance of manager and partner review points

3 Subsequent events review

4 Receipt of final set of financial statements for checking

5 Management representation letter, as attached in Appendix VII to be approved and signed



## 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	<p>The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 20 June 2016.</p> <p>As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.</p>	<p>All relevant matters have been included within this report.</p>
2	<p>We are required to review the draft Annual Governance Statement and be satisfied that it meets the disclosure requirements in ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007. We are also required to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.</p>	<p>Our work on the draft annual governance statement is currently in progress.</p>
3	<p>We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p>	<p>Our work on the narrative report is currently in progress.</p>

# WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
<p>Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.</p> <p>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>	<p>We expect to submit the relevant section of the assurance statement to the National Audit Office (NAO) by the deadline of 21 October 2016.</p>

# USE OF RESOURCES

## Key informed decisions, deployed resources and sustainable outcomes

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). 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 2015/16 Audit Plan issued in March 2016. 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.

Page 22

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p><b>SUSTAINABLE FINANCES</b></p>	<p>The spending review announced by the Government in November 2015 confirmed that central government funding for local government will continue to fall following significant reductions implemented during the previous Parliament. Existing funding mechanisms, particularly in relation to local taxation, are also likely to be restructured in the medium-term.</p> <p>The Council’s most recent medium term financial strategy (MTFS, prepared in February 2016) takes into account the above factors. Identified savings of £2.6m will need to be delivered during the period 2016/17 - 2019/20 and further savings of £0.5m will need to be identified for the period 2017/18 - 2019/20.</p> <p>The likely changes to local government funding, coupled with the need to deliver savings in the medium term, means that the Council continues to face financial risks. These are, in part, mitigated by the levels of reserves currently held by the Council, which are forecast to remain significantly above the target of 25% of the Council’s net budget requirement for the duration of the MTFS.</p>	<p>As noted in the “Risk detail and work performed” column, the Council remains in a strong financial position due to its healthy reserve balances. Management have updated the MTFS since our risk assessment and the predicted revenue balance at the end of the period covered by the MTFS is expected to be £6.857m, which represents 55% of the Council’s net budget requirement for 2019/20. This is significantly above the minimum 25% approved by members.</p> <p>Capital funds are expected to reduce from £3.742m at the start of the MTFS period to nil during 2018/19.</p> <p>Management have recognised that ongoing reductions in central government funding will present significant financial challenges in the medium term. The introduction of the Transformation Programme aims to address this, as well as the need to embrace new technology and meet the changing needs of both internal and external stakeholders.</p>

# USE OF RESOURCES

## Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p><b>SUSTAINABLE FINANCES</b> (Continued)</p>	<p>We have reviewed the Council’s 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. We have also reviewed the progress it has made with its transformation programme, including any potential efficiency savings arising from the programme.</p>	<p>A Head of Transformation was appointed in November 2015 to oversee the programme’s four work streams:</p> <ul style="list-style-type: none"> <li>• Customer experience</li> <li>• Business culture</li> <li>• Resources, accommodation and technology</li> <li>• Major projects</li> </ul> <p>The customer experience review commenced during the year. An officer working group was convened in September 2015 and initial findings and recommendations reported to members in March 2016. This project continues to progress alongside other aspects of the transformation programme, notably a review of the Council’s current office accommodation.</p> <p>The development of the Langston Road Shopping Centre is expected to provide the Council with a significant source of income once operational. Delays in the tendering process for the construction of the centre have resulted in the opening being postponed until Easter 2017 (the centre was originally intended to open in time for Christmas 2016).</p> <p>As the Transformation Programme is in its early stages, financial benefits (both in terms of savings achieved and additional revenue generated) are yet to be realised. Those elements of the programme which commenced during 2015/16 are progressing well and are on track to deliver the changes envisioned by officers.</p>

# APPENDICES



# APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Epping Forest District Council
'Those charged with governance'	The persons with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the members of the Audit and Governance Committee.
Management	The persons responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: <ul style="list-style-type: none"> <li>The financial statements (including designing, implementing, and maintaining effective internal control over financial reporting)</li> <li>Putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.</li> </ul>
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
The 'Code'	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC (Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLICE	Society of Local Authority Chief Executives
CIES	Comprehensive Income and Expenditure Statement

## APPENDIX II: 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, or in aggregate, on the opinion in the auditor's report.

### CORRECTED AUDIT DIFFERENCES

There were no differences that have been corrected in the revised draft financial statements that affect the reported surplus for the year. However, a number of amendments to classifications have been made, as detailed in the 'Key Audit and Accounting Matters' section of this report.

Page 26

### UNADJUSTED AUDIT DIFFERENCES

There are no unadjusted audit differences relating to the current year.

We have also separately reported the impact of brought forward prior year uncorrected misstatements and their impact on the current year performance. These amounts remain misstatements with regard to reporting in year financial performance, but are not misstatements at the year end and cannot be corrected as these relate to previous years. Overall, the impact of prior year misstatements on current year performance would decrease the reported underlying surplus for the current year by £877,000.

## APPENDIX II: AUDIT DIFFERENCES

### UNADJUSTED AUDIT DIFFERENCES

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		DR £'000	CR £'000	DR £'000	CR £'000
Surplus on the provision of services	(28,841)				
DR CIES Taxation and non-specific grant income	877	877			
CR Balance sheet capital grants received in advance					(877)
<i>Being the impact of the brought forward prior year error in relation to incorrect recognition of affordable housing contributions.</i>					
<b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>	<b>877</b>	<b>877</b>			<b>(877)</b>
Surplus on the provision of services if adjustments accounted for	(27,964)				

Page 27

IMPACT ON GENERAL FUND AND HRA BALANCES	GENERAL FUND BALANCE £'000
Balances before adjustments	(7,272)
Adjustments to CIES above	877
<b>Adjustments via movement in Reserves Statement:</b>	
CR Capital adjustment account to reflect application of affordable housing contribution	(877)
<b>BALANCES AFTER ADJUSTMENTS</b>	<b>(7,272)</b>

# APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMING
<b>FINANCIAL STATEMENTS</b>					
<b>RELATED PARTIES</b>	Our audit identified that those individuals and organisations disclosed as related parties in the draft financial statements did not meet the definition of related parties as per accounting standards.	Undertake a review of potential related party transactions as part of the financial statement closedown process. This review should be based on the definition of related parties as described in the Code.	A review will be done.	Assistant Director (Accountancy)	March 2017
<b>EXISTENCE OF ASSETS</b>	We were unable to verify the existence of assets relating to works in respect of off street parking areas associated with council dwellings	Maintain adequate records for capital works so that expenditure incurred can be associated with a specific asset location.	Information held on the asset register will be expanded.	Assistant Director (Accountancy)	March 2017
<b>PREPARATION OF WORKING PAPERS</b>	We identified that the write-off had been incorrectly accounted for. We note that officers did not prepare a working paper to demonstrate how the treatment applied was consistent with the requirements of the Code.	Working papers to support significant or unusual transactions should be prepared as part of the financial statement closedown process.  The working papers should clearly document how the requirements of the Code relevant to the transaction(s) in question have been applied, along with any judgements made by management relating to the recognition, measurement and presentation of such transactions.	Agreed.	Assistant Director (Accountancy)	March 2017
<b>IMPAIRMENT OF RECEIVABLES</b>	Impairment of receivables are not calculated using actual collection rates.	Calculate impairment of receivables using actual collection rates for the corresponding category of debtor. Investigate the possibility of preparing custom reports for systems where the required data is not currently readily available	Agreed.	Assistant Director (Accountancy)	March 2017

## APPENDIX IV: MATERIALITY

### MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	1,900,000	1,900,000
Clearly trivial threshold	76,000	76,000

Planning materiality of £1.900 million was based on 2% of 2014/15 gross expenditure. We had no reason to revise our final materiality level.

## APPENDIX V: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
David Eagles - Engagement lead	4	31 March 2018
Barry Pryke - Audit manager	3	31 March 2024

# APPENDIX V: INDEPENDENCE

## Continued

### INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have provided services other than audit to the Council as set out in Appendix VI.

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

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards 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.

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

## APPENDIX VI: FEES SCHEDULE

	2015/16	2014/15		
	£	£	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
Audit fee	64,672	86,229	N/A	N/A
Certification fee (Housing benefits subsidy claim)	<sup>(1)</sup> 18,533	24,710	N/A	N/A
<b>TOTAL AUDIT FEE</b>	<b>83,205</b>	<b>110,939</b>		
Reporting on government grants:				
Pooling of Housing Capital Receipts Return	<sup>(1)</sup> 2,000	2,000	The threat to auditor independence from Audit Related Services is clearly insignificant	No safeguards required
<b>TOTAL ASSURANCE SERVICES</b>	<b>82,205</b>	<b>112,939</b>		

<sup>(1)</sup> Our work on the assurance reviews of the grant claims and other returns for 2015/16 is in progress and we will report the findings from this work and the final fees separately.



# APPENDIX VII: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP  
16 The Havens  
Ransomes Europark  
Ipswich IP3 9SJ

29 September 2016

Dear Sirs

Financial statements of Epping Forest District Council for the year ended 31 March 2016

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2016 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 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 of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2016 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) and for making accurate representations to you.

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.

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 international financial reporting standards 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 councillors, 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.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

## APPENDIX VII: DRAFT REPRESENTATION LETTER

### Continued

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 fair value measurements in relation to the following are reasonable and that there are no circumstances of which we are aware that would have a material impact on the values reported:

fair value of property, plant and equipment

assumptions underpinning the reported pension liability

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 1.2 to the financial statements are sufficient.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of councillors, 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 so 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 has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Robert Palmer

Director of Resources

29 September 2016

Councillor John Knapman

Chair of the Audit and Governance Committee

Signed on behalf of the Audit and Governance Committee

29 September 2016

---

## 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 welcome feedback from external bodies and is committed to implementing a 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 firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as 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.

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices to be firm-wide and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to , one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more wide-spread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.



FOR MORE INFORMATION:

**DAVID EAGLES**

Engagement lead

T: 01473 320 728

E: David.Eagles@bdo.co.uk

**BARRY PRYKE**

Project manager

T: 01473 320 793

E: Barry.Pryke@bdo.co.uk

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 company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2016 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)