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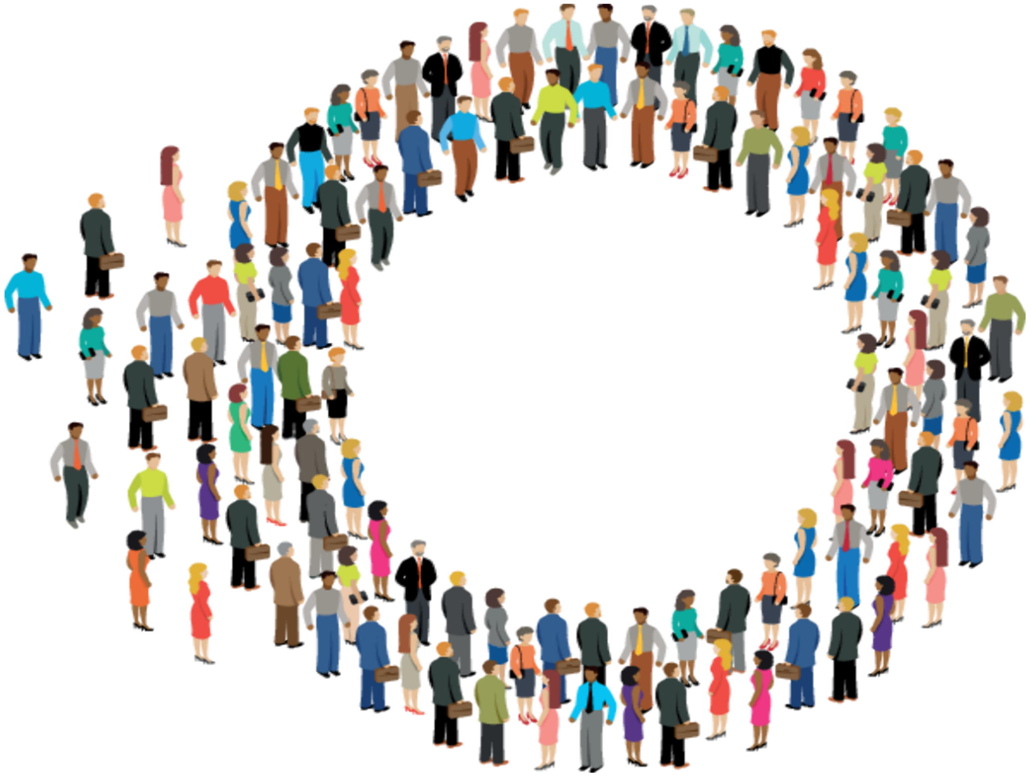
Epping Forest District Council



Epping Forest District Council

Final Report to the Audit and Governance Committee on the audit for the year ended 31 March 2021

Issued on 9 February 2024 for discussion for the meeting on 15 February 2024

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our update report to the Audit and Governance Committee of Epping Forest District Council (the Council) for the 2020/21 audit. The scope of our audit was set out within our planning report presented to the committee on 22nd November 2021.

Status of the audit	Our audit is substantially complete, subject to the following matters being finalised: • Receipt of a signed management representation letter; and • Our review of events since 31 March 2021 through to signing We acknowledge that there have been long delays in completing the audit. This has been caused by a number of factors including delays in finalising the 2019/20 audit and resourcing constraints experienced across the sector. We have included a section in this report providing observations arising from the work we have so far carried out on the areas of significant risk and other areas of audit focus reported to you in our audit planning report. We will provide an oral update on these matters including an update regarding the status of the audit at the meeting.
Status of our Value for Money audit	Our Value for Money work is complete and will be reported to the Audit and Governance Committee in our Auditor's Annual Report. We have not identified any significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources. We have no matters to report by exception in our financial statement audit opinion.
Conclusions from our testing	• We have not identified any significant uncorrected audit adjustments or disclosure deficiencies. • We have summarised audit adjustments noted on page 26. • Based on the current status of our work and us finalising our remaining audit work with no further issues, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement. • We have considered the impact of the Covid-19 pandemic on our work and include details on page 6 of this report. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic. • We have provided a status of the internal control deficiencies which have been included from page 21.

Introduction

The key messages in this report (continued)

Narrative Report & Annual Governance Statement	• We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. • We have no significant matters to raise with you in respect of the Narrative. We also have no significant matters in respect of the Annual Governance Statement.
Duties as public auditor	• We had not received any formal queries or objections from local electors this year. • We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	As per the Weekly Auditor Communication issued by the National Audit Office on 26 July 2023, Whole Government Accounts (WGA) group audit construction to component, the WGA group audit team confirmed they did not require further work or submission from the component auditors on WGA returns for 2020-21.
Impact of Covid-19 grants and change in significant risk assessment	As part of our Audit Plan, presented to the Audit and Governance Committee in November 2021, we highlighted a need to better understand the impact of the Covid-19 grant funding arrangements at the Council. Following the issuance of the audit plan, we completed a risk assessment of Covid-19 funding streams. This risk assessment highlighted the need for the Council to make significant judgements around the recognition and treatment of Covid-19 grant funding in the 2020/21 financial statements. Given the level of judgement involved, we identified Covid-19 grant income as a significant audit risk. Further information regarding the work performed and our conclusions on this risk can be viewed on page 12.

Mohammed Ramzan
Audit Lead

Our audit explained

We tailor our audit to your organisation

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

These were major capital projects and the impact of Covid-19 on the Council.

Scoping

Covid-19 consequences have impacted our work. Details are included on page 6. There have been no other changes to the scope of our work as set out in the audit plan which is carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. These are set out from page 21 of this report.

Determine materiality

When planning our audit we set our group materiality at £2,389k (Council only £2,110k) (2019/20: £2,030k) based on forecasted gross spend on services and report to you in this paper all misstatements above £105k (2019/20: £101k).

Materiality has not changed since our planning report.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement.

We report our findings and conclusions on these risks in this report. We have identified the accounting for Covid-19 grants as a significant risk and Infrastructure Assets as an area of focus.

Conclude on significant risk areas

We draw to the Committee's attention our observations on the significant and area of focus audit risks. The Committee members must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report.

Covid-19 pandemic and its impact on our audit

Requirements	CIPFA has issued guidance highlighting the importance of considering the impact of Covid-19 in preparation of the 2020/21 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of Covid-19 and related uncertainties, including their impact on resilience and going concern assessments. Entity-specific explanations of the current and expected effects of Covid-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation. As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.
Actions	A thorough assessment of the current and potential future effects of the Covid-19 pandemic is required including: • A detailed analysis across the council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves • The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios) • Any material uncertainties relating to the council's financial position, the financial sustainability of the Council, and the potential requirement for a section 114 notice; and • The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
We have considered the key impacts on the business such as: • Interruptions to service provision. • Supply chain disruptions. • Unavailability of personnel. • Reductions in income. • The closure of facilities and premises.	We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including: • Principal risk disclosures • Impact on property, plant and equipment • Valuation of commercial or investment properties • Impact on pension fund investment measurement and impairment • Financial sustainability assessment • Events after the reporting period and relevant disclosures • Narrative reporting • Impairment of non-current assets • Allowance for expected credit losses	We have considered the impact on the audit including: • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel

	Potential Impact on annual report and financial statements	Audit response
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors issued a practice alert in March 2020 as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation, resulting in disclosure in financial statements and "emphasis of matter" paragraphs in audit reports By September 2020 RICS considered that there was no longer material uncertainty over valuations from that date, and therefore valuations at 31 March 2021 are not expected to be affected by material valuation uncertainties However, the on going financial impact of the pandemic has impacted valuations, both through demand for particular asset types and weakening the financial standing of tenants. The Council needs to consider its approach to the measurement of property, plant and equipment (where property held at current value is based on market valuations) the Council should consider with their valuers the impact that Covid-19 has had on current value The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2021.	The Council has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2021. The is no material uncertainty disclosed in the Statement of Accounts and we have concluded that this is appropriate based on our work on property valuations, (page 9 included challenging whether the Council had appropriately considered the impact of Covid-19 on the valuation). Disclosures of the key judgements in this area are made in note 4 and 12 to the financial statements
Valuation of commercial or investment properties	Following the Covid-19 pandemic, the fair value measurements for financial instruments and investment properties held by the Council needs to be reviewed against the conditions and assumptions at the measurement date. Although volatility is lower relative to 31 March 2020, there have been significant market movements during the year which may impact valuations.	The Council has considered its approach to the measurement of Investment property (IP). Where property held at current value is based on market valuations the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2021. The is no material uncertainty disclosed in the Statement of Accounts as expected relating to IP
Expected credit losses	Since 31 March 2020, there has been a significant downturn in economic activity, with many businesses and individuals significantly impacted. The Council will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.	For non public sector debtors consideration is needed of the impact on the required level of provision for expected credit losses under IFRS 9. The Council debtors have increased at 31 March 2021 and as expected, we note that the Council has increased is level of provisioning as a result of the Covid-19 pandemic and no issues have been noted with the level of these provisions

	Potential Impact on annual report and financial statements	Audit response
Covid-19 grants	Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, specifically around the new grants received in year relating to Covid-19 where terms and conditions may be less clear and there is no historical basis for the accounting treatment. There is a risk that the Council will recognise the income before the terms and conditions of the Covid-19 grants have been met. There are also a number of grants relating to Covid-19, such as the business rates relief, where management need to determine if they are acting in the capacity of an Agent or Principal.	We have tested the design and implementation of key controls in place around the recognition of Covid-19 grant income; We have reviewed the accounting treatment of new Covid-19-related grants for 2020/21 to confirm that they have been correctly accounted for as either an Agent or Principal arrangement; and We tested on a sample basis grants including the new Covid-related grants to ensure that any terms and conditions were met prior to recognition as income. We have not identified any material misstatement.
Narrative and other reporting issues	The following areas will need to be considered by local authorities as having being impacted on by the Covid-19 pandemic. • Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. • Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.	We note that the narrative report adequately discloses matters related to Covid-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic pension fund investments have been subject to volatility. At 31 March 2021, we noted that the Council's share of pension fund assets had moved by £37m.	We engaged early with the Pension Fund auditor to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation. We have not identified any material misstatement.

Significant risks

Risk 1 – Property Valuation – Fixed assets and investment properties

Risk identified
The Council is required to hold property assets within Property, Plant and Equipment ("PPE") and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Key judgements and our challenge of them

The Council holds Council Dwellings & Garages, other land & buildings and investment properties at 31 March 2021 which are required to be recorded at current or fair value at the balance sheet date, the significant risk identified therefore applies to these classes of assets.

Valuation of property assets and investment property is an area of audit focus due to the inherent degree of complexity, estimation and potential variability in the valuation methodologies that can be applied.

Deloitte response

- We tested the design and implementation of key controls in place around the property valuation.
- We used our valuation specialists, Deloitte Real Assets Advisory, to review the methodology and approach and to challenge the appropriateness of the year-end valuation, focusing on the key subjective inputs.
- Our specialists have also evaluated the methodology applied in and the outcomes of the full valuation of the Council Dwellings category, performed as at 31 March 2021.
- We tested a sample of key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation.
- Reviewed assets not subject to valuation in 2020/21 in order to confirm that the remaining asset base is not materially misstated; and.
- Reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.

We have not identified any material misstatement.

Significant risks (continued)

Risk 2 - Capital expenditure

Risk identified

The Council has a substantial capital programme, and had budgeted £42.7m for capital works during 2020/21 (2019/20: £49.5m). Key projects include capital component replacement and house building schemes, as well as refurbishment of the Civic Offices and Ongar Leisure Centre.

Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.

The Council has greater flexibility of the use of revenue resource compared to capital resource. There is also, therefore a potential incentive for officers to misclassify revenue expenditure as capital as will impact the surplus/deficit recorded by the Council at year-end.

Deloitte view

We have not identified any material misstatement

Deloitte response

- We tested the design and implementation of controls around the capitalisation of costs.
- We tested a sample of capital items in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements.

Significant risks (continued)

Risk 3 - Management override of controls

Risk identified
In accordance with ISA 240 (UK and Ireland) management override of controls is a presumed significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions.

The key judgments in the financial statements are those which we have selected as significant risk or areas of audit focus; valuation of the Authority's properties and pension liability, accounting for Covid-19 grants and Capital expenditure. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Council's results throughout the year did project both positive and negative divergences from budgets in operational areas. This was closely monitored and whilst some areas projected overspends, the underlying reasons were understood.
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We are tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

Accounting estimates

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council's estate and the valuation of the pension liability, as discussed elsewhere in this report.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the areas more subject to estimation in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

Significant risks (continued)

Risk 4 - Risk of Fraud in Revenue Recognition

Risk identified

Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, specifically around the new grants received in year relating to Covid-19 where terms and conditions may be less clear and there is no historical basis for the accounting treatment. There is a risk that the Council will recognise the income before the terms and conditions of the Covid-19 grants have been met. There are also a number of grants relating to Covid-19, such as the business rates relief, where management need to determine if they are acting in the capacity of an Agent or Principal.

Deloitte view

We have not identified any material misstatement.

Deloitte response

- We have tested the design and implementation of key controls in place around the recognition of Covid-19 grant income;
- We have reviewed the accounting treatment of new Covid-19 related grants for 2020/21 to confirm that they have been correctly accounted for as either an Agent or Principal arrangement; and.
- We have tested a sample of grants including the new Covid-related grants to ensure that any terms and conditions were met prior to recognition as income.

Other areas of audit focus

Valuation of infrastructure assets

Background

Infrastructure assets are inalienable assets, expenditure on which is only recovered by continued use of the asset created. They include street parking, drainage, fencing, street lighting, street furniture and traffic management systems, and are measured in the accounting code at historical cost.

The accounting code requires that where a component of an asset is replaced:

• the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and

• the gross costs and accumulated depreciation of the old component should be derecognised to avoid double counting.

Auditors have identified that local authorities in the UK have not been properly accounting for infrastructure assets since the move to IFRS in 2020/21 due to information deficits.

CIPFA/LASAAC attempted to resolve the issues and undertook an urgent consultation on temporary changes to the code. However, it was unable to agree an approach that addressed the concerns of all stakeholders whilst also supporting high quality financial reporting.

This has resulted in the Department for Levelling Up, Housing and Communities (DLUHC) agreeing to provide a statutory instrument, which would help resolve some of the issues identified, whilst a permanent solution was being sought. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022, was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. The main purpose of the statutory instrument was to allow local authorities to make the assumption that any infrastructure asset additions recognised are replacing components that have been fully depreciated. The SI is applicable to all financial years up to 2024/25, where the audit certificate for the authority is still open.

Risk identified

The following concerns were raised by local authority auditors in relation to the treatment of infrastructure assets in local authority statement of accounts:

• Derecognition of components – concerns were raised that local authorities were not derecognising infrastructure assets after they had been replaced by additions. This was due to the derecognition provisions of the Code being difficult for local authorities to apply for infrastructure assets, as authorities do not have detailed records of infrastructure asset components in place.

• Gross book value and accumulated depreciation – as a result of local authorities not disposing of infrastructure asset components when they were replaced, the gross book value and accumulated depreciation balances included in the property, plant and equipment disclosure notes for infrastructure assets are overstated. This is because components that are no longer in use are still included in both balances.

• Infrastructure asset disaggregation – concerns were raised that the records held by some local authorities do not sufficiently disaggregate the infrastructure asset balance within the authorities fixed asset register, so as to allow both the authority and auditors, to understand the actual types of infrastructure assets held by the authority. For example, it was noted that a number of authorities nationally include one line entitled “infrastructure assets” in the fixed asset register, with no further information available regarding what is included in the balance.

• Useful economic lives – it was identified that authorities often have limited support for the useful economic lives used in relation to infrastructure assets.

Other areas of audit focus (continued)

Valuation of infrastructure assets

Risk identified (continued)

These issues were all raised with CIPFA and the Department for Levelling Up, Housing and Communities (DLUHC). We believe the above concerns to be relevant to the Council, as it has a net book value of £4.6 m (2019/20: £5.3m) in relation to infrastructure assets as at year-end. The current year net book value reflected above is before the adjustment made in relation to the application of the new guidance and statutory instrument.

Deloitte response

We have completed the following procedures:

• On derecognition of components: The Statutory Instrument (hereafter refer to as 'SI') stipulated Where a local authority replaces a component of an infrastructure asset, for the purposes of determining the carrying amount to be derecognised in respect of that component ("the relevant amount") the local authority shall either, determine the relevant amount as nil; or calculate the relevant amount in accordance with the accounting practices identified in regulation 31.

• Gross book value and accumulated depreciation: The audit team has reviewed the infrastructure assets disclosure included in the Council's revised financial statements.

• Infrastructure Asset disaggregation: The audit team has challenged the disaggregation of infrastructure assets as reflected on the fixed asset register and concluded that the disaggregation is reasonable. The audit team reviewed and challenged the determination of the useful economic lives applied to infrastructure assets by the Council and confirmed the rationale for the determination of the useful economic lives to be appropriately supported and reasonable in light of information reviewed.

Conclusion

Following the conclusions of the work performed as detailed above, we are satisfied that infrastructure assets are fairly stated with no material misstatements identified.

We further noted a control observation as detailed on page 26.

Other matters

Defined benefits pension scheme

Background

The Council participates in the Local Government Pension Scheme, administered by Essex County Council.

As at 31 March 2021, the Council had a £2.7m pension gain on its balance sheet. Pension assumptions are a complex and judgemental area and the calculation is reliant on accurate membership data provided to the actuary.

We have thus identified this as an other area of audit focus to report to the Audit & Governance Committee as a key area of management judgement.

For the LGPS (Local Government Pension Scheme), it is possible to identify Epping Forest District Council portion of the assets and liabilities, and the Local Authority Accounting Code of Practice requires full disclosure of the Council's share of the LGPS within its financial statements. There are a large number of judgments inherent in the calculation of the scheme liability, including future inflation rates and appropriate discount rates. Small movements in these rates can have a material impact. Additionally, there are judgements implicit in allocating Epping Forest District Council's share of the assets of the scheme.

Deloitte response

We obtained a copy of the actuarial report produced by Barnett Waddingham, the scheme actuary, and agreed the disclosures to notes in the accounts.

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by the actuary, including benchmarking as shown the table opposite.
- We are reviewing the assurance obtained from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements for the year.
- We reviewed the disclosures within the accounts against the Code to confirm compliance thereof.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2%	1.90-2.15%	Reasonable
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.8%	2.50-2.90%	Reasonable
Salary increase (% p.a.) (over CPI inflation)	3.8%	Council specific	Reasonable
Pension increase in payment (% p.a.)	2.8%	2.70-2.85%	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	22	23	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23	24.70	Reasonable

Deloitte view

We have not identified any material misstatements.

Other matters (continued)
Group Accounts

Component	Significant to group	Scope
Epping Forest District Council	Yes	Scope B
Qualis	Yes	Scope A

Scope A:
Specific audit procedures have been performed by the audit team on one or more account balances which are significant to the group to group materiality. A full audit of the subsidiary companies have been performed by the subsidiary auditor.

Scope B:
Full scope audit procedures have been performed by audit team to a materiality appropriate to the group and individual financial statements of the entity.

Conclusion Our audit of the group accounts is finalised and we have not identified any material misstatements.

Value for money

Our work is reported in our Auditor's Annual Report

Value for Money requirements

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements.
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising.

Work performed to obtain an understanding of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources

As part of our risk assessment, we have reviewed the summary of Value for Money arrangements prepared by the Council, reviewed supporting documentation on arrangements, and held follow up interviews on areas where additional information was required.

In addition, we have:

- reviewed of the Council's Annual Governance Statement;
- reviewed internal audit reports through the year and the Head of Internal Audit Opinion
- considered issues identified through our other audit and assurance work;
- considered the Council's financial performance and management throughout 2020/21; and

We have also obtained an understanding of:

- The changes in governance processes as a result of Covid-19;
- The changes to control processes as a result of Covid-19; and
- The processes and controls put in place in order to deal with the Covid-19 business support schemes.

Value for money (continued)

Our work is reported in our Auditor’s Annual Report

Status of our work and significant weaknesses

Our Value for Money work is complete, and is reported in full in our Auditor’s Annual Report.

We have not identified any significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have no matters to report by exception in our financial statement audit opinion.

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the financial statements

We anticipate issuing an unmodified audit opinion.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Value for money by exception

Our opinion will note that our Value for Money work is complete and will be reported in our Auditor's Annual Report.

We have no matters to report by exception in our financial statement audit opinion.

Irregularities and Fraud

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019.

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; - Basis of preparation; and. - Future sustainability and risks to this posed by Covid-19.	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit and is not otherwise misleading. We note that the Narrative Report was updated for the implications of Covid-19.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review.

Control observations

We note that there has been a substantial improvement in the preparation of the financial statements and the related processes despite the disruptions caused by the pandemic. However, the improvement plan that management are implementing is still ongoing.

Area	Observation	Deloitte Recommendation	Management response and remediation plan
Preparation of Valuation reports	Our real estate specialist team have identified three areas for improvement to enhance reporting on the Councils valuation of assets: • The Councils external valuers report provided is consistent with the minimum reporting requirements of the RICS Valuation Standards, although lacks detail as to valuation rationale and reasoning to support the conclusions on value which has necessitated a number of clarification questions being raised. • The valuation report is not clear as to the diligence undertaken on valuation inputs when sourced from the Council. This should be addressed in future years to ensure clarity. • We observed in our selected assets review that limited evidence was presented by the valuer with limited rationale for the valuation inputs adopted. It is accepted that the valuer may need to apply judgement however such judgements should be more clearly articulated with valuation reasoning and rationale to provide greater clarity in line with the RICS Valuation Standards. • There is no commentary regarding how the value and nature of the portfolio has changed year-on-year to assist the reviewer. A summary outlining sales, demolitions and additions should be in future years. • There is still an element of ambiguity in respect of the development land valuations. Our recommendation from previous years – providing the supporting information regarding the proposed tenure for the affordable accommodation, the valuation methodology adopted or the source of the build cost assumptions – have not been included within the report. • The DVS should clearly outline their methodology and how they have considered the garages relative to the comparable information they have sourced to arrive at their Beacon value and subsequent values. The observations above are not expected to have a material impact on the overall valuation but should be addressed as part of instructing the valuers in future years.	We recommend management to communicate and discuss the noted insights with their valuers to enhance the valuation process.	We shall take the recommendation into consideration and request that the valuers include the more detailed information. The next valuation will be for 2023-24.

Control observations (continued)

Area	Observation	Deloitte recommendation	Management response and remediation plan
Failure to use CIPFA disclosure checklist	We noticed that the Authority had not made use of the Chartered Institute of Public Finance and Accountancy (CIPFA) disclosure checklist (the 'checklist') for the financial year ended 31 March 2021. This checklist is helpful in identifying reporting requirements introduced in the then financial year and is useful in cross referencing to the Code of Practice.	Management should make use of the CIPFA disclosure checklist going forward to assist in the financial reporting process.	The use of the CIPFA disclosure checklist is not mandatory. The management acknowledges the recommendation and will make use of the disclosure checklist going forward.
Depreciation of fixed assets	From the work done, we noted 13 assets whose depreciation had not been calculated since inclusion into the Fixed Asset Register (FAR). Upon further review, we noted that the isolated items with a total depreciation amount of £73,189 had not been effected since inclusion in the FAR. We noted that the Capex system was not calculating the depreciation for these specific assets as it had not been instructed to by ticking off the depreciation box. We however note that the amounts associated with the assets is not material to the financial statements.	We recommend a full review of the fixed asset register to identify assets not being depreciated. Further, management should institute controls to check assets are being depreciated as they should.	We shall continue the systematic review of the fixed assets register.
Infrastructure assets	We challenged Management judgement on classification of items as Infrastructure assets (IA). We noted two categories of Assets included as IA that did not meet the definition of IA as detailed on page 26.	Management should review assets categorization based on CIPFA guidance.	The Statutory instrument in respect of the infrastructure assets was only published in December 2022. EFDC has reviewed assets categorisation for 2022-23
Review, approval of working paper and updating of accounts	A number of key working papers and reconciliations provided by management in the first instance needed improvement as they did not reconcile to the trial balance or contain the required level of detail. Whilst we note that in most instances subsequent workings have been provided by management which are correct. The working papers provided audit were of a higher quality compared to the 2019/20 audit. However, improvements are still required in this area.	Management should continue enhancing the quality of working papers being produced through use of CIPFA disclosure checklist and training. Further, we recommend that a process of review and approval of all key working papers is embedded in the year-end process to implement an appropriate level of quality control.	The recommendation is noted. Progress has been made with the volume of such errors having reduced in the 2021/22 audit which is currently in progress.

Control observations – Prior period audit

During the course of prior period audit we identified internal control findings which we have summarised below for information along with an update based on our 2020/21 audit.

Area	Observation	Status
Quality of draft financial statements and information provided	For the initial draft financial statements which were published for public inspection and presented for audit, there is room for further improvement. Issues noted included: • Inconsistencies between notes in the financial statements; • Differences between primary statements and notes; and. • Differences noted during our call and cast process. • Differences noted between the financial statements and supporting working papers and/or an absence of suitable supporting working papers. Together these indicate weaknesses in the financial reporting and close process. We recommend the Council reviews the year-end reporting and close process, including: • Documented year-end timetable that includes detailed guidance on processes and controls. • preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in the year and for the disclosure requirements for any new or changed activities of the Council; • documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts; • review of the completed CIPFA disclosure checklist; • documented and reviewed internal checks of internal consistency; • completion of the CIPFA "pre-audit checks on draft year-end accounts" checklist; and. • documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers.	Open. The financial statements presented for audit were of a higher quality compared to the 2019/20 audit. However, as noted earlier, further progress is required in this area.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit & Governance Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Current status of our work on key audit judgements and our observations on the quality of your Statement of Accounts and Narrative Report;
- Our internal control observations; and.
- Other insights we have identified to the date of issuing our report.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit & Governance Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

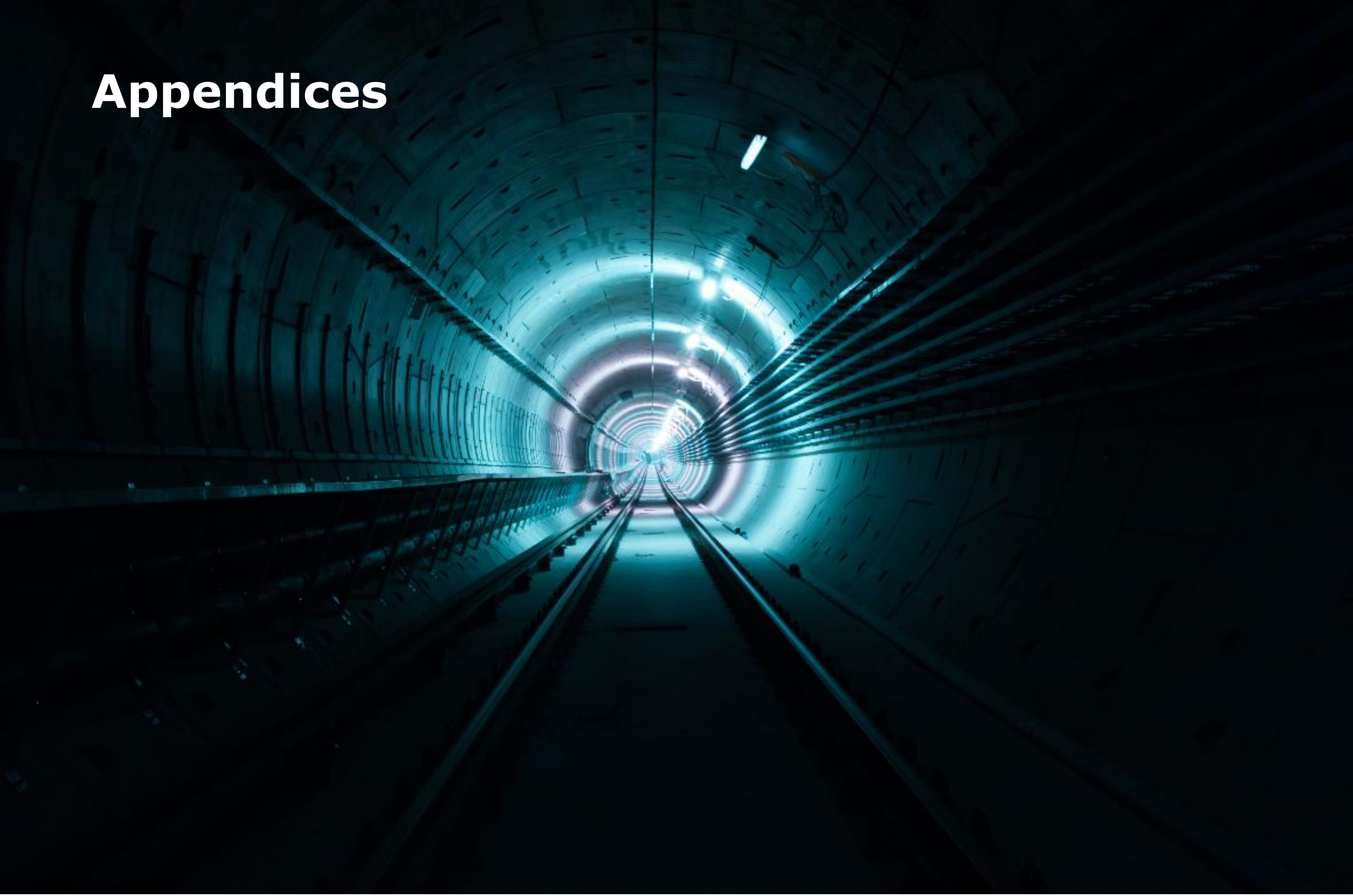
Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Birmingham|9 February 2024

Appendices



Audit adjustments
Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask officers to correct as required by ISAs (UK). Uncorrected misstatements increase total comprehensive expenditure in the CIES by £0.2m, decrease net assets by £0.2m.

		Debit/(credit) CIES	Debit/(credit) in net assets	*Memo: Debit/(credit) reserves*	If applicable, control deficiency identified
Misstatements identified in current year		£m	£m	£m	
Impact of Goodwin judgement on pension liability - *Judgemental*	[1]	0.300	(0.300)		No
As per the IAS19 Pension Fund Auditor's Report, Benefits paid per the IAS 19 data does not agree to and the pension fund ledger with a difference of 384k	[2]	(0.384)	0.384		No
As per the IAS19 Pension Fund Auditor's Report, Contributions per the IAS 19 data and the pension fund ledger differ by 284k	[2]	0.284	(0.284)		No
Total		**0.200**	**(0.200)**		
Misclassification misstatements					
Investment property	[3]		0.280		No
Council dwellings	[3]		0.070		No
Infrastructure asset	[3]		(0.350)		No

(1) No allowance has been made for the Goodwin ruling. The central estimate from local government pensions scheme actuaries of 1% gives an estimated cost of £300k. (Judgemental misstatement)

(2) These findings have been identified by the Pension Fund Auditor of Essex County Council Pension Fund.

(3) These misstatements relate to assets included in property plant and equipment as infrastructure assets, which should be included in investment property and council dwellings.

(4) DBO was remeasured at date of early retirement settlement, but pension asset value has not been remeasured. For the sake of consistency, both DBO and asset should be remeasured. The net effect is a judgemental amount of £0.150 affecting the OCI other actuarial gains/losses and interest income. The corrective posting would have a CIES impact only.

Written representations will be obtained from the Authority confirming that after considering the uncorrected items, no adjustments were required.

Audit adjustments (continued)

Unadjusted disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

	Disclosure misstatements
1.	The Council has not included the estimation uncertainty of the United Kingdom leaving the European Union ("Brexit") on its financial performance.
2.	The Council has not updated the latest on the impact of the Coronavirus pandemic on the property portfolio particularly its effect on the leisure contract with Places Leisure.
3.	The Council under note 6 to the financial statements, expenditure and funding analysis, has disclosed adjustments between the funding and accounting basis but has not provided explanation for each column as required by the Code.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit & Governance Committee for the year ending 31 March 2021 in our final report to the Audit & Governance Committee.
Non-audit fees	There are no non-audit fees.
Independence monitoring	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

	2020/21 £	2019/20 £
Financial statement [1]*	49,797	49,797
Additional fee for prior year audit [2]*	-	29,795
Additional fee for changes in the current year [3]*	70,200	-
Total audit fees	**119,997**	**79,592**

[1] The fee reflected here is the scale fee.

[2] Fee for additional audit work relating to 2019/20.

[3] Fees for additional audit work relating to changes to the work required on Value for Money, group audit considerations as a result of Qualis, updated auditing standards and regulatory requirements and Covid-19 procedures is under negotiation with senior management. The value set out here is as estimated at the time of our Audit Plan.

In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we will discuss the final position with the Council on completion of the 2020/21 audit.

All additional fees are subject to agreement with PSAA.

Our other responsibilities explained

Fraud responsibilities and representations

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council and its group.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning, we identified the risk of fraud in the recognition Covid-19 grant income, capital expenditure and management override of controls as a significant audit risk.

During course of our audit, we have had discussions with management and those charged with governance including the Head of Internal Audit.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No significant concerns have been identified from our work