



Accountants &
business advisers

Epping Forest District Council

Annual Audit Letter 2010/11

Report to Members

December 2011



Local Public Services

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<http://www.pkf.co.uk/>

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

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

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codelocalgov.aspx>

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

1 Executive summary

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

Key findings

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

Area	Conclusion
Financial statements	<p>Some presentational misstatements of a material amount were identified by our audit work and corrected by management, none of which had an effect on the Council's reported outturn.</p> <p>The restatement of prior years' balances required for implementation of International Financial Reporting Standards was dealt with appropriately.</p> <p>We issued an unqualified opinion on the financial statements on 30 September 2011.</p>
Value for money conclusion	<p>We issued an unqualified value for money conclusion on 30 September 2011.</p>

Acknowledgement

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

2 Introduction

About the Council

- 2.1 Epping Forest District Council is in south west Essex and most of the 131 square miles of the district are green and rural. The population of Epping Forest is around 123,000, with about half living close to its boundary with London and there are six main centres of population.
- 2.2 The Council comprises 58 elected Members representing 32 wards. It employs approximately 520 full time equivalent staff, and spends approximately £112m per annum, providing a range of public services to the residents of the District. The Council's spend is funded by Central Government Grants, Council Tax, fees and charges (including housing rents) and other sources of income.
- 2.3 Further information on the activities of the Council is detailed in its eAnnual Reports and the Corporate Plan 2011-2015 which are publicly available on the Council's website at <http://www.eppingforestdc.gov.uk>.

The purpose of this Letter

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

Responsibilities of the auditors and the Council

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

The scope of our work

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

3 Key findings

Accounts

Financial statements

- 3.1 We issued an unqualified opinion on the Council's financial statements on the 30 September 2011 and therefore within the statutory deadline. Our opinion confirms that the financial statements gave a true and fair view of Council's financial affairs as at 31 March 2011 and of its income and expenditure for the year then ended.
- 3.2 Misstatements were identified and corrected during the course of the audit, five of which were material in value but related only to disclosures meaning that there was no impact on the Council's reported outturn position as a result of amendment. These matters, along with a number of other immaterial misstatements were reported in detail in our *Annual Governance Report*.
- 3.3 These ranged from £782,000 to £96,380,000 the latter being incorrect inclusion of investment principle in the Cash Flow statement adjustment lines, and associated notes, with a nil net effect on correction. The other amendments related to the accuracy of the financial instruments note and disclosures in respect of Housing Revenue Account assets.
- 3.4 There was one uncorrected misstatement reported to Those Charged with Governance of £69,000 in respect of the incorrect treatment of the upward revaluation of guest rooms within the Council's housing stock. Members accepted that this misstatement would remain uncorrected on the basis that it was not significant to the accounts.

Whole of Government Accounts

- 3.5 The Whole of Government Accounts return was also certified on the 30 September 2011 which was the deadline date. The complexity of the implementation of IFRS and the number of corrected misstatements arising from the audit, even though these did not affect the reported outturn, resulted in the Whole of Government Accounts return requiring amendment and extended audit work.

Internal controls

- 3.6 We were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.
- 3.7 We identified some control weaknesses from our review of the Council's accounting and internal control systems, and we took account of these in our audit approach and levels of testing. These were reported in our *Annual Governance Report* and related to the housing and council tax benefit system, specifically in respect of controls to check the accuracy of benefit calculated and awarded. Our additional testing confirmed that failure to operate these controls effectively did not result in a material misstatement in the financial statements.

Use of resources

- 3.8 We were satisfied that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011, and issued our conclusion on 30 September 2011.

Value for money conclusion

- 3.9 Our principal work in arriving at our value for money conclusion was comparing the Council's financial governance arrangements against characteristics specified by the Audit Commission, reviewing financial resilience and the arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial resilience

- 3.10 Our financial resilience work considered the Council's arrangements for financial governance, financial planning and financial control.
- 3.11 Along with all other Councils, Epping Forest District Council was notified of a reduction in central government revenue funding of 16.8% (or £1,706K)¹, with further reductions in the subsequent years. Forecast spending reductions are 13.1% (or £3,154K)² in 2011/12 which is a higher reduction than other District Councils across the Country that are all facing similar financial pressures. Although the Council is intending to utilise some reserves to rectify budgeting shortfalls, it has also transferred Housing Revenue Account assets to the General Fund with an annual rental income of £1.4m as well as restricted historically underspent budgets, in order to fund the finance gap in the short term.
- 3.12 The Council has a good track record of achieving its budgets, putting it in the fortunate position, compared to similar councils, of having built up good levels of funds and reserves to support it in its response to the financial pressures now faced. From review of current documentation, the Council is on track to deliver its 2011/12 budget and is now focusing on its medium term financial strategy.

Challenging economy, efficiency and effectiveness

- 3.13 Our review of economy, efficiency and effectiveness considered the Council's arrangements for prioritising resources and improving efficiency and productivity.
- 3.14 2010/11 has been a period of review and consolidation in respect of VFM although the Council's baseline arrangements remain adequate.
- 3.15 The implementation of the VFM Strategy action plan and the Data Quality Strategy action plan has been monitored but some of the proactive VFM actions have been consciously put on hold primarily due to:
- the need for all of the baseline budgets to be reviewed and challenged in detail to underpin the Council's response to the challenges presented by funding reductions
 - the contracting of consultants to undertake a series of specific reviews in 2011/12 with a VFM aspect, the results of which will be used to target specific areas for more detailed challenge.
- 3.16 There has been focus on improving the Council's housing and council tax benefits administration processes during the year, which was previously subject to a critical inspection report. In addition, a proactive, independent evaluation of the Council's waste management contract and grounds maintenance service was conducted by specialist consultants who concluded that both had been providing good value for money.

Grants

- 3.17 Our work on the 31 March 2011 grant claims remains on-going at the time of issuing this Letter. We will issue a detailed report on the findings from our work in January 2012, once all claims have been certified.

¹ Source: CLG – RA and SSG returns 2010/11 and 2011/12

² Source: Audit Commission Financial Resilience Survey

4 Future developments

Housing Revenue Account Reform

- 4.1 From 2012/13, the government intends to replace the current method of financing the Housing Revenue Account (HRA) with a system of self funding. Councils will no longer receive housing subsidy, instead they will be expected to fund all HRA revenue and capital expenditure from existing resources.
- 4.2 The impact for the Council is the need to borrow, after several years of being a debt free authority, up to £186m which will be finalised in the next budget setting round ready for 1 April 2012 when self-financing will go live.
- 4.3 We consider the Council to be at the forefront in determining the most appropriate way forward and have already been involved in proactive, early discussions with the Council's finance staff regarding borrowing options and accounting treatment.

Appendix: Reports issued in relation to the 2010/11 audit

Report	Date Issued
Audit Fee Letter	April 2010
Annual Audit Plan	December 2010
Annual Governance Report	September 2011
Annual Audit Letter	December 2011