

The Annual Audit Letter

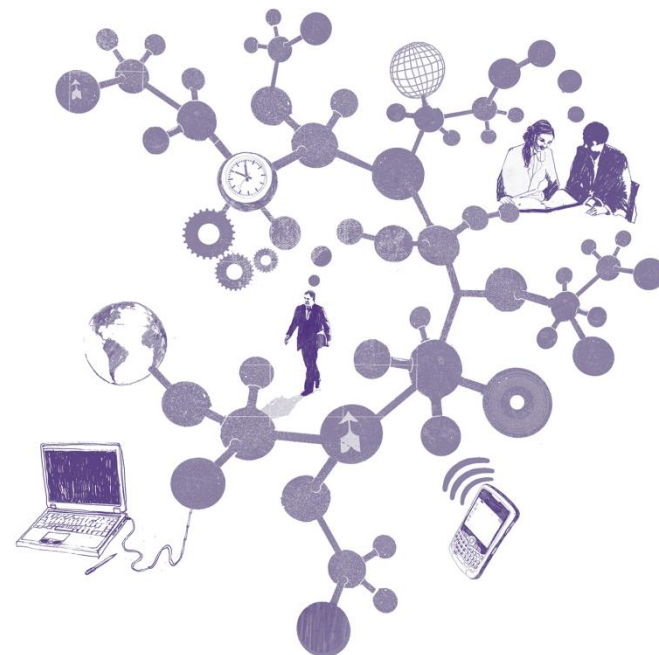
Epsom and Ewell Borough Council

Year ended 31 March 2016

October 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Epsom and Ewell Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Strategy and Resources Committee as those charged with governance in our Audit Findings Report on 27 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 28 September 2016.

Certificate

We certified that we had completed the audit of the accounts of the Council in accordance with the requirements of the Code on 28 September 2016.

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Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Strategy and Resources Committee in our Annual Certification Letter.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we used the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We defined materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £911k (being 2% of gross revenue expenditure). We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for cash and cash equivalents.

We set a lower threshold of £44k, above which we reported errors to the Strategy and Resources Committee in our Audit Findings Report.

The scope of our audit

Our audit involved obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they were free from material misstatement, whether caused by fraud or error.

This included assessing whether:

- the Council's accounting policies were appropriate, had been consistently applied and adequately disclosed;
- significant accounting estimates made by management were reasonable; and
- the overall presentation of the financial statements gave a true and fair view.

We also read the narrative report and annual governance statement to check they were consistent with our understanding of the Council and with the accounts on which we gave our opinion.

We carried out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we obtained was sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Table 1: Audit risks

Risks identified in our Audit Plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Epsom and Ewell Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited; and• the culture and ethical frameworks of local authorities, including Epsom and Ewell Borough Council, mean that all forms of fraud are seen as unacceptable. <p>We did not identify any material issues to report.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• review of entity controls• testing of journal entries• review of accounting estimates, judgements and decisions made by management• review of unusual significant transactions. <p>We did not identify any material issues to report.</p>

Audit of the accounts - continued

Risks identified in our Audit Plan	How we responded to the risk
Operating expenses Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• documented our understanding of processes and key controls over the transaction cycle;• undertook walkthrough of the key controls to assess whether the controls were in line with our documented understanding;• sample tested operating expenditure during the year• tested year end payables and manual accruals• tested for unrecorded liabilities. <p>We did not identify any material issues to report.</p>
Employee remuneration Employee remuneration accruals understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• documented our understanding of processes and key controls over the transaction cycle• undertook walkthrough of the key controls to assess the whether those controls were in line with our documented understanding• reviewed reconciliations of the payroll to the ledger;• analytical review using trend analysis;• tested payroll transactions to payslips and HR contract of employment. <p>We did not identify any material issues to report.</p>

Audit of the accounts - continued

Risks identified in our Audit Plan	How we responded to the risk
<p>Valuation of property, plant and equipment (PPE) including investment properties</p> <p>Assets are regularly revalued to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Investment properties are re-valued annually.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • reviewed management's processes and assumptions for the calculation of the estimate • reviewed competence, expertise and objectivity of any management experts used • reviewed instructions issued to valuation experts and the scope of their work • discussed with valuer the basis on which the valuation was carried out and challenged key assumptions • reviewed and challenged information used by the valuer to ensure it was robust and consistent with our understanding • tested revaluations made during the year to ensure they were input correctly into your asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value <p>We did not identify any material issues to report.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in the balance sheet represent significant estimates in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertook walkthrough of the key controls to assess the whether the controls were in line with our documented understanding • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out • undertook procedures to confirm the reasonableness of the actuarial assumptions made • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any material issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 September 2016, in advance of the 30 September 2016 national deadline.

We received draft financial statements on 4 July 2016.

Key messages arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Strategy and Resources Committee on 27 September 2016.

In addition to the key audit risks reported above, we reported to the Committee:

- the draft accounts submitted for audit were of a good quality
- working papers were provided in a timely manner and supported the disclosures in the accounts. However, working papers for debtors, creditors and prepayments in the rates system need to be improved to provide a detailed breakdown of the balance at an individual level
- officers were supportive to our audit requests and provided additional information throughout the audit
- made a recommendation to the Finance team to explore possible methods to generate a detailed listing report from the rates system.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We had no matters to report.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risk we identified and the work we performed is set out in table 2 overleaf. We made one recommendation which is also set out in the table.

Overall VfM conclusion

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 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial Health</p> <p>The Council was on course to achieve a planned budget for 2015/16 though you have had to take some difficult measures such as having a moratorium on spend. Going forward to 2016/17, the Local Government Finance Settlement reduced your funding assessment by 25% in 2016/17 and further savings of £1.6 million are required over the period 2017/18 to 2019/20.</p>	<p>We carried out the following work:</p> <ul style="list-style-type: none"> • reviewed your outturn position for 2015/16, including the delivery of savings targets • reviewed your plans to achieve the 2016/17 revenue budget • assessed your progress on the residual risk reported in our previous audit reports • met with key officers to discuss and review your arrangements to ensure medium term financial stability. 	<p>The 2015/16 outturn was an improved position to that forecast during the year as the Council needed to £167k rather than planned £229k from the general fund working capital balance at year to deliver the balanced position. Although a deficit position occurred this was forecast consistently during the year so was not a surprise to officers or members. The Council maintained spending in line with plans and achieved a slightly better position than forecast.</p> <p>The Council had set a balanced budget for 2016/17 although there continues to be budget pressures with revenue support grant disappearing by 2017/18. The Council's medium term financial strategy was approved by the Council in February 2016 bringing together a number of the Council's strategies including procurement, ICT and workforce. The assumptions used in the plan are reasonable and with further government funding being eroded, the Council has identified an efficiency savings requirement of £3m to £3.5m over the next four years. Schemes have been identified for £2.3m and the Council recognises that a further savings of around £900k will need to be found between 2017 and 2020. The Council continues to be debt free and has aspirations for the situation to remain unchanged over the next 4 years. However, with the steady erosion of the capital reserves, it recognises the need to consider all options for funding capital expenditure including financing via borrowing.</p> <p>The Leadership Team has undergone a restructuring in the past few months and the new arrangements will need time to fully embed. However, with a relatively small Leadership Team which is in common with many districts, any unplanned long term absence at this level as that experienced over the summer months increases the pressure on a small number of individuals. The Leadership team and the committee members need to continue to ensure delegated arrangements can continue to operate with limited impact on the delivering of core services. We have not identified any issues with the governance arrangements or financial monitoring during the year but there is a risk arising for the 2016/17 year as a key member of the finance team who has been covering the senior finance role during the year is leaving the Council in October.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council had proper arrangements. However we have made a recommendation for on-going monitoring of the financial position with the capacity of the senior finance officers being stretched during the early part of 2016/17.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

Sharing our insight – we provided regular updates to the Council covering best practice. Areas we covered included our reports on Innovation in public financial management, Making devolution work, Reforging local government. We will continue to provide you with our insights.

Providing information – we provided you with access to CFO insights by introducing a member of the CFOi team and giving you information about the capabilities of the analysis tool.

Early closedown - we will also continue to work with you and support you over the next financial year to embed your production of your year-end accounts. From 2017/18 all councils in England will be required to publish their audited financial statements by 31st July (currently 30th September).

Regular liaison - we will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues to improve the audit process. The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 Audit Plan.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	44,708	44,708
Grant certification on behalf of Public Sector Audit Appointments Limited (estimated) *	*8,976	TBC
Total audit fees	53,684	TBC

The proposed fees for the Council's audit were in line with the scale fee set by Public Sector Audit Appointments Limited (PSAA).

* Work still in progress – completion due in November 2016. Fee variations are subject to approval by PSAA.

Reports issued

Report	Date issued
Audit Plan	April 2016
Audit Findings Report	September 2016
Auditor's opinion on accounts	September 2016
Auditor's value for money conclusion	September 2016
Annual Audit Letter	October 2016

Fees for other services

Service	Fees £
None	nil
Total	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.



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