

EXTERNAL AUDITOR'S ANNUAL REPORT - 2021/22

Head of Service:	Brendan Bradley, Head of Finance
Wards affected:	(All Wards);
Appendices (attached):	Appendix 1 - 2021/22 Auditor's Annual Report Appendix 2 - Letter from Grant Thornton

Summary

This report presents Grant Thornton's 2021/22 Annual Report to members and an update on the 2022/23 Statement of Accounts.

Recommendation (s)

The Council is asked to:

- (1) Receive the Auditor's Annual Report;
- (2) Note the management responses to the auditor's recommendations at Appendix 1.

1 Reason for Recommendation

- 1.1 The external audit is a statutory part of the control environment for local authorities. It provides external assurance that the Council can use to demonstrate it can achieve the Four Year Plan priority of being an Effective Council.
- 1.2 The recommendations will enable the Council to meet its statutory obligations with regard to external audit.

2 Background

- 2.1 In March 2023, Grant Thornton completed the audit of the Council's 2021/22 Statement of Accounts. At that time, Epsom & Ewell Borough Council was among a minority of just [c.16% of local authorities nationally](#) to have their 2021/22 accounts signed off.
- 2.2 Under the 2020 Code of Audit Practice, it is a requirement for external auditors to issue an Auditor's Annual Report, to include commentary on the Council's arrangements to secure value for money, within three months of auditing the Statement of Accounts.

Council

25 July 2023

- 2.3 The auditor has met this requirement by providing the report to management on 26 May, which through this report is now presented to members at the earliest scheduled opportunity.
- 2.4 On 18 July 2023, Audit & Scrutiny Committee considered the auditor's Annual Audit Report, prior to it being presented to Full Council for information.

3 Auditor's Annual Report

- 3.1 The Auditor's Annual Report is attached at Appendix 1. The report's findings can be considered to reflect positively on the Council, with key findings relating to financial sustainability, governance and value for money summarised as follows:

Financial Sustainability

3.1.1 *"The Council continues to operate in a financially and operationally challenging environment. Financial planning both in the short and medium term is on a sound footing with a prudent assumptions being built into both. These challenges will continue so the need for the structured and disciplined approach to managing finances and reserves which the Council has demonstrated to date will need to continue.*

3.1.2 *Our work has not identified any significant weaknesses in arrangements to secure financial stability, however we have suggested an improvement recommendation regarding the Medium-Term Financial Strategy and saving plans."*

Governance

3.1.3 *"The Council has appropriate leadership and management structures in place and its risk and control systems are appropriate. Our work has not identified any significant weaknesses in arrangements."*

Improving Economy, Efficiency and Effectiveness (Value for Money)

3.1.4 *"The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources. Our work has not identified any significant weaknesses in arrangements."*

- 3.2 The auditors also presented three improvement recommendations, to further strengthen the Council's processes. These are summarised in the following table, along with the management response to each:

Council
25 July 2023

Auditor Recommendation	Management Response
<p>1. The Council needs to set a timeline for how it will develop longer term saving plans that will ensure reserves are not further depleted. Current levels of reserves are well within the advised targets suggested by CIPFA but the reduction over the MTFS reduces the amount of headroom available to the Council.</p>	<p><i>Management recognises the need to identify additional income and savings to mitigate the Council's projected budget gap from 2024/25. A report has been prepared for Strategy & Resources Committee in July 2023 to propose a framework and timeline for addressing the budget gap, for members to consider.</i></p>
<p>2. The Council's current Risk Register template mostly covers the key areas seen within the sector and help support the Council's risk management process. The Council may benefit further from including the source of assurance for mitigation actions for example, is the assurance external or internal, based on recent information or data. The inclusion of the sources of assurance will allow the Council to produce more accurate risk scores to mitigate individual risks.</p>	<p><i>The source of assurance (internal/external) will be disclosed for all corporate risk mitigating actions. To be implemented by 30 Sep 2023 (Q2 reporting period), which follows the annual review of the risk management strategy.</i></p>
<p>3. Share quarterly budget monitoring reports with the Strategy & Resources Committee would support that committee in discharging its responsibilities around finances.</p>	<p><i>Management agrees that members should be aware of budget monitoring reports, which are already taken to Audit & Scrutiny Committee. To avoid duplication and the potential scenario of two different committees reaching conflicting decisions on the same report, it is proposed that budget monitoring reports will continue to be taken to Audit and Scrutiny formally, but also shared via Members News, thereby ensuring all committee members including Strategy & Resources are kept informed.</i></p>

3.3 Grant Thornton has previously advised that it would be best practice for the Auditor's Annual Report to be presented to Full Council. This is because the national 'Redmond Review' recently found that in a number of high-profile corporate failures, those at the top of the organisation often cited in their defence that they were not made aware of issues raised by auditors, because audit reports had been discussed elsewhere in the governance structure.

3.4 As such, Full Council is asked to receive the Annual Audit Report and to note the management response to the three recommendations.

Council

25 July 2023

4 2022/23 Statement of Accounts Audit Update (as reported to Audit & Scrutiny Committee on 18 July)

- 4.1 The Council's unaudited 2022/23 Statement of Accounts were published on 5 July. Mainly due to a staff resource issue (i.e. long term sickness) in the finance team, this was after government's target date of 31 May.
- 4.2 The external audit of the accounts had been scheduled to take place in July, ahead of government's 30 September 2023 audit completion deadline. However, Grant Thornton (GT) has advised officers that due to wider issues in the audit sector, particularly the backlog of outstanding prior year audits at other councils (i.e. not EEBC), GT does not expect to have the resources to undertake EEBC's audit until October 2023. The full letter is at Appendix 2.
- 4.3 EEBC officers will continue best endeavours to progress the audit, when it starts, as efficiently as possible. Should the Council miss the audit deadline, it will be required to publish an explanatory notice on the website and then continue work to complete the audit as soon as practicable thereafter. There is no financial penalty for missing the deadline, but there will be a significant resourcing pressure later in the year if staff are working on the audit at the same time as preparing 2024/25 budget reports. In preparation, as much work as possible will be completed in advance to try to mitigate this scenario.

5 Risk Assessment

Legal or other duties

5.1 Impact Assessment

- 5.1.1 The auditor's recommendations and management actions arising from the Auditor's Annual Report should further enhance the Council's risk management framework.

5.2 Crime & Disorder

- 5.2.1 None arising directly from the contents of this report.

5.3 Safeguarding

- 5.3.1 None arising directly from the contents of this report.

5.4 Dependencies

- 5.4.1 None arising directly from the contents of this report.

5.5 Other

- 5.5.1 None arising directly from the contents of this report.

6 Financial Implications

- 6.1 The Auditor's Annual Report has been produced within the agreed main audit fee for 2021/22, as previously reported to Audit & Scrutiny Committee.
- 6.2 **Section 151 Officer's comments:** The Auditor's Annual Report forms a new part of the overall external audit process for local authorities. The Council received an unqualified (i.e. favourable) opinion on its Statement of Accounts from the external auditor for 2021/22.

7 Legal Implications

- 7.1 The Local Audit and Accountability Act 2014 sets out the framework for audit of local authorities. Grant Thornton's work is undertaken in the context of the Statement of Responsibilities of Auditors and Audit Bodies issued by the Comptroller and Auditor General.
- 7.2 **Legal Officer's comments:** None arising from the contents of this report.

8 Policies, Plans & Partnerships

- 8.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.
- 8.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 8.3 **Climate & Environmental Impact of recommendations:** None arising directly from the contents of this report.
- 8.4 **Sustainability Policy & Community Safety Implications:** None arising directly from the contents of this report.
- 8.5 **Partnerships:** None arising directly from the contents of this report.

9 Background papers

- 9.1 The documents referred to in compiling this report are as follows:

Previous reports:

- External Audit Update Report – Audit & Scrutiny Committee, 6 April 2023
- 2021/22 Statement of Accounts and Audit Findings Report – Audit & Scrutiny Committee, 17 November 2022.

Other papers:

- None.