

## 2022-23 STATEMENT OF ACCOUNTS AND AUDIT FINDINGS

<b>Head of Service:</b>	Brendan Bradley, Chief Finance Officer
<b>Wards affected:</b>	(All Wards);
<b>Urgent Decision?</b>	No
<b>If yes, reason urgent decision required:</b>	N/A
<b>Appendices (attached):</b>	Appendix 1 – Audit Findings Report Appendix 2 – 2022/23 Statement of Accounts (includes Annual Governance Statement) Appendix 3 – Letter of Representation Appendix 4 – Auditor’s Annual Report

### Summary

This report presents the 2022/23 Statement of Accounts, Grant Thornton’s Audit Findings Report, and the Auditor’s Annual Report following the external audit.

### Recommendation (s)

#### The Committee is asked to:

- (1) Approve the Statement of Accounts for the year ended 31 March 2023;
- (2) Receive the Audit Findings for 2022/23;
- (3) Agree the management action in response to the audit recommendations detailed at Appendix A of the Audit Findings report;
- (4) Authorise and agree that the Chair or Vice Chair of Audit and Scrutiny Committee and the Chief Finance Officer sign the Statement of Accounts and Letter of Representation on behalf of the Council;
- (5) Nominate and authorise the Chief Finance Officer, in consultation with the Chair or Vice Chair of Audit & Scrutiny Committee, to make any further amendments to the 2022/23 Statement of Accounts;
- (6) Receive the Auditor’s Annual Report for 2022/23;
- (7) Agree the management actions in response to the recommendations in the Auditor’s Annual Report;
- (8) Note that the Auditor’s Annual Report will also be presented to the next meeting of Full Council.

# Audit and Scrutiny Committee

## 28 March 2024

### 1 Reason for Recommendations

- 1.1 Approving the recommendations will enable the Council to meet its statutory requirements under the Accounts and Audit Regulations (England), regarding the preparation of its year-end accounts for 2022/23.

### 2 Background

- 2.1 The Accounts and Audit Regulations require Councils to publish audited Statement of Accounts by 30 September each year, or where this is not possible, to publish an explanatory public notice on its website.
- 2.2 The Council was unable to publish audited accounts by 30 September, because owing to resourcing issues in the audit sector, Grant Thornton had to defer the audit commencement until October, as reported to this Committee in July 2023. However, the Council has met its overall statutory requirements by publishing the explanatory public notice.

### 3 Audit Update

- 3.1 As reported to this Committee in February, the audit has progressed and Grant Thornton has now issued their Audit Findings Report (Appendix 1), and Auditor's Annual Report (Appendix 4), relating to the 2022/23 financial year and the Statement of Accounts.
- 3.2 The Statement of Accounts incorporate disclosures that show the combined financial position of the Council and Epsom & Ewell Property Investment Company. These disclosures are known as group accounts and are attached at Appendix 2.
- 3.3 As part of the audit, Grant Thornton performed sufficient work to gain assurance that the group accounts are materially accurate.
- 3.4 The Audit Findings Report will be presented to the committee by a senior officer from Grant Thornton, who will also answer any questions members may have on the audit.
- 3.5 The audited Statement of Accounts are included as Appendix 2 to this report. **The accounts are complex and so Members are asked to raise any detailed queries with the Chief Finance Officer prior to the meeting.**
- 3.6 The Council is required to provide Grant Thornton with a Letter of Representation, attached at Appendix 3. The Letter of Representation provides the auditor with assurance that the Council has fulfilled its responsibilities relating to the audit and financial statements.
- 3.7 The Council's provisional financial performance for 2022/23 was previously reported to Strategy & Resources Committee in July 2023, and there are no changes to the provisional figures arising from the audit.

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### **4 Audit Findings Report (Appendix 1)**

- 4.1 The following specific points are made in the report:-
- 4.2 The auditor's overall headline finding is that: *"Our anticipated audit report opinion will be unqualified [i.e. favourable]. We have been able to satisfy ourselves that the Council has made proper arrangements in securing economy, efficiency and effectiveness in its use of resources"*.
- 4.3 Any adjustments required to the Statement of Accounts have been agreed and implemented and they did not affect the Council's reported outturn position or usable reserves. The agreed adjustments are detailed at Appendix C to the Audit Findings Report, with the main one being a £1.188m increase in the value of investment properties.
- 4.4 For context, this means the reported valuation of the Council's investment properties increases from £115m in the draft accounts to £116m in the audited accounts. The increase is recognised in the Capital Adjustment Account (an unusable reserve), so does not impact the Council's usable reserves and revenue outturn position.
- 4.5 There are three 'unadjusted misstatements', detailed at Appendix C of the Audit Findings Report. The auditor is satisfied that these items are immaterial and so should be adjusted in the following year's accounts where necessary.
- 4.6 The auditor has made one minor improvement recommendation, detailed at Appendix B of the Audit Findings report, which management has agreed to implement.

### **5 Auditor's Annual Report (Appendix 4)**

- 5.1 The Auditor's Annual Report is attached at Appendix 4. The report can be considered to reflect positively on the Council, with key findings summarised as follows:

Financial Sustainability

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5.1.1 *“The Council continues to operate in a financially and operationally challenging environment. Financial planning both in the short and medium term has prudent assumptions built in but the continual delivery of savings plans will be key. With continued uncertainty on Council funding levels from 2025/26 onwards and the significant risks posed by government reviews, the latest forecast in the Financial Plan anticipates that identified savings of c.£1.4m in the Efficiency Plan will need to be delivered by 2027/28. The Council should continue to acknowledge the importance of seeking ways other than use of reserves to manage the financial budget gap in the medium term, given the finite nature of reserves. The challenges will continue so the need for the structured and disciplined approach to managing finances and reserves will continue to be crucial. We have not identified any indications of significant weaknesses in arrangements relating to financial sustainability.*

### Governance

5.1.2 *“The Council continues to maintain appropriate governance arrangements and have all required compliance policies in place. The Risk Management Strategy update is prudent and allows for suitable risk planning. We note that the Council implemented last year’s recommendation to include sources of assurance in Risk Register templates. The Council suitably use the principles of CIPFA’s Delivering Good Governance in Local Government Framework to guide their internal controls. They have a sufficient Internal Audit function providing assurance over the Council’s functions. Internal Audit Progress Reports demonstrate that the Council should prioritise completion of management actions; we have raised a recommendation to this effect. Furthermore, we noted that there are two members of Strategy & Resources Committee who are also members of Audit & Scrutiny Committee, so we have raised a recommendation to consider the composition of the Committee and consider the benefits of appointing independent members of the Committee.*

### Improving Economy, Efficiency and Effectiveness (Value for Money)

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5.1.3 *“The Council’s approach to improving economy, efficiency and effectiveness is aligned to delivering value for money. Their Four Year Plan and more detailed annual planning is centred around delivering value to the wider community, however we have raised a recommendation to develop a partnership governance framework to help guide and track success of partnership working at Epsom & Ewell. See page 25 [of our report] for more detail. In addition, we noted the Council’s underperformance in processing minor planning applications [in 2022/23]. However, we acknowledge that performance has improved in 2023. See page 25 [of our report] for more detail. Whilst we have not identified any significant weaknesses in this section, our recommendation should further enhance the Council’s ability to deliver value for money”.*

5.2 The Auditor’s Annual Report presents four improvement recommendations in total, to further strengthen the Councils processes. The four recommendations, detailed in full at Appendix 4, are summarised in the following table along with the management response to each.

5.3

Auditor Recommendation	Management Response
<p>1. The Council should ensure that internal audits focussed on the financial controls are completed ahead of the end of the financial year in order to help inform the opinion of the Head of Internal Audit</p>	<p><i>Management acknowledges the importance of completing audits as planned during the financial year. Over the last 21 months, the finance team has experienced significant resource challenges due to elevated staff turnover and a case of long-term sickness (now resolved). The team is now sufficiently resourced and going forward expects to deliver against the internal audit plan. Progress against the internal audit plan continues to be monitored by both Strategic Leadership Team and Audit &amp; Scrutiny Committee, ensuring oversight of audit progress.</i></p>
<p>2. The Council should develop a monitoring framework for management actions identified in Internal Audit Reports and prioritise completion of management actions by the agreed due date. A monitoring framework would provide more clarity and accountability to service and function leads to complete all outstanding actions.</p>	<p><i>The Council already has a robust framework in place for monitoring outstanding audit actions. The Business Assurance team maintains a log of all open actions, with Heads of Service required quarterly to provide progress updates. Actions are only closed once confirmed as completed. Looking ahead, the Council has recently procured performance management software, which is expected to further enhance monitoring capabilities.</i></p>

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<p>3. The Council should:</p> <p>a) Consider reviewing the composition of Audit &amp; Scrutiny Committee to exclude Strategy &amp; Resources Members to help maintain independence.</p> <p>B) Consider the merits of appointing independent members to Audit &amp; Scrutiny Committee.</p>	<p><i>Following a Corporate Peer Challenge in March 2024, the Council already expects to review the operation of Audit &amp; Scrutiny Committee in the coming year. This audit recommendation will be considered, in consultation with relevant members, as part of this review.</i></p>
<p>4. To support the Council's partnership working, the Council could develop a partnership governance framework to help bring clarity, to guide partnership work and to help evaluate success and effectiveness of working arrangements.</p>	<p><i>The Council is committed to positive partnership working and is aware that this has also been recognised as part of the recent Corporate Peer Challenge. Management will consider this recommendation in conjunction with the Action Plan that arises from the Corporate Peer Challenge.</i></p>

### **5.4 Audit & Scrutiny Committee is asked to note the management responses to the four recommendations within the Auditor's Annual Report.**

**5.5** Grant Thornton has previously advised that it is best practice for the Auditor's Annual Report to also be presented to Full Council. This is because the national 'Redmond Review' 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.

As such, the report will also be presented to Full Council for information at its next meeting.

## **6 2022/23 Housing Benefit Subsidy Certification**

6.1 At the time of writing, audit work on the Council's Housing Benefit Subsidy claim for 2022/23 remains ongoing. Certification of the claim is expected to complete by 31 May 2024.

6.2 The deadline for auditors to complete certification work had originally been 31 January 2024, however, Grant Thornton deferred this work due to their resourcing issues. There is not expected to be any penalty from the Department of Work & Pensions as a result of the deferral, and it does not impact on approval of the Council's Statement of Accounts.

6.3 Looking forward, officers will seek assurance from Grant Thornton that it will have resources in place to meet statutory deadlines for 2023/24.

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### **7 Risk Assessment**

Legal or other duties

7.1 Equality Impact Assessment

7.1.1 None.

7.2 Crime & Disorder

7.2.1 None.

7.3 Safeguarding

7.3.1 None.

7.4 Dependencies

7.4.1 None.

7.5 Other

7.5.1 The Council has a statutory requirement to approve and publish its audited Statement of Accounts, under the Accounts and Audit Regulations.

### **8 Financial Implications**

8.1 The 2022/23 Audit Plan originally anticipated an audit fee of £67,548.

8.2 However, the deferral of the audit from July to October meant it clashed with other significant workstreams, such as setting the Council's 2024/25 budget. It also coincided with a period of elevated staff turnover in the finance team. This presented significant challenges for staff to provide immediate responses to all audit queries. Despite this, officers have managed to work with Grant Thornton to progress the audit to completion, remaining amongst the first districts in Surrey to do so.

8.3 Grant Thornton advise that it has incurred additional costs of £10,000, due to delays in receiving responses to some audit requests, as officers faced multiple demands from competing workstreams.

8.4 Officers have pointed out that the original audit deferral from July, which was at Grant Thornton's request as it did not have sufficient resources to undertake the audit at that time, contributed to the audit clashing with other significant workstreams in October.

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8.5 Usually additional audit costs would be passed in full to the client organisation (i.e. the Council). However, given the mitigating factors above, it may be considered reasonable for Grant Thornton and the Council to share the additional costs 50:50, i.e. £5,000 each. Officers intend to refer the additional fee request to the independent PSAA (Public Sector Audit Appointments Ltd) for a decision. Should PSAA decide that an additional £5,000 fee is reasonable and therefore payable, it will take the total main audit fee for 2022/23 to £72,548. This could be met from existing budgets, supported by government grant funding for additional financial reporting burdens.

8.6 **Section 151 Officer's comments:** The Statement of Accounts are extensive and detailed so please raise any queries regarding Appendix 2 with the Chief Finance Officer prior to the Committee meeting.

### 9 Legal Implications

9.1 The requirements for external audit are set out in the executive summary of the Audit Findings report.

9.2 The Accounts and Audit Regulations require that the audited Statement of Accounts and Annual Governance Statement be approved by a member committee and published on the Council's website by 30 September 2023, or where this is not possible, to publish an explanatory public notice on its website and to complete the audit as soon as practicable thereafter. The Council has complied with its statutory obligations.

9.3 **Legal Officer's comments:** None arising from the contents of this report.

### 10 Policies, Plans & Partnerships

10.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council

10.2 **Service Plans:** The matter is included within the current Service Delivery Plan.

10.3 **Climate & Environmental Impact of recommendations:** None.

10.4 **Sustainability Policy & Community Safety Implications:** None.

10.5 **Partnerships:** None.

### 11 Background papers

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

**Previous reports:**



## Audit and Scrutiny Committee

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- External Audit Update reports to Audit and Scrutiny Committee, 18 July 2023, 28 September 2023, 16 November 2023 and 1 February 2024.
- Provisional Financial Outturn reported to Strategy & Resources Committee on 13 July 2023.

#### **Other papers:**

- None.