

## **EXTERNAL AUDITOR'S ANNUAL REPORT - 2022/23**

<b>Head of Service:</b>	Brendan Bradley, Chief Finance Officer
<b>Report Author:</b>	Brendan Bradley
<b>Wards affected:</b>	(All Wards);
<b>Appendices (attached):</b>	Appendix 1 - 2022/23 Auditor's Annual Report

### **Summary**

This report presents Grant Thornton's 2022/23 Annual Report to members.

### **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 2024, Grant Thornton issued its Audit Findings Report on the Council's 2022/23 Statement of Accounts.
- 2.2 Grant Thornton also issued the Auditor's Annual Report for 2022/23, which is required (by the 2020 Code of Practice) to be produced within three months of auditing the Statement of Accounts. The report includes commentary on the Council's governance and arrangements to secure value for money and governance.

- 2.3 The auditor has met this requirement by providing the report to be considered at Audit & Scrutiny Committee on 28 March 2024, 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 conclusions 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 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

3.1.2 *"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)

3.1.3 *“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”.*

3.2 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 1, are summarised in the following table along with the management response to each.

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>

3.2.1 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.

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

## 4 Risk Assessment

Legal or other duties

### 4.1 Impact Assessment

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

### 4.2 Crime & Disorder

4.2.1 None arising directly from the contents of this report.

### 4.3 Safeguarding

4.3.1 None arising directly from the contents of this report.

### 4.4 Dependencies

4.4.1 None arising directly from the contents of this report.

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### 4.5 Other

4.5.1 None arising directly from the contents of this report.

## 5 Financial Implications

5.1 The main audit fee for 2022/23 is expected to be £72,448, as previously reported to Audit & Scrutiny Committee.

5.2 **Section 151 Officer's comments:** The Auditor's Annual Report forms a new part of the overall external audit process for local authorities.

## 6 Legal Implications

6.1 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.

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

## 7 Policies, Plans & Partnerships

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

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

7.3 **Climate & Environmental Impact of recommendations:** None arising directly from the contents of this report.

7.4 **Sustainability Policy & Community Safety Implications:** None arising directly from the contents of this report.

7.5 **Partnerships:** None arising directly from the contents of this report.

## 8 Background papers

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

### **Previous reports:**

- External Audit Update Report – Audit & Scrutiny Committee, 28 March 2024.

### **Other papers:**

- None.