

# The Audit Findings for Epsom and Ewell Borough Council

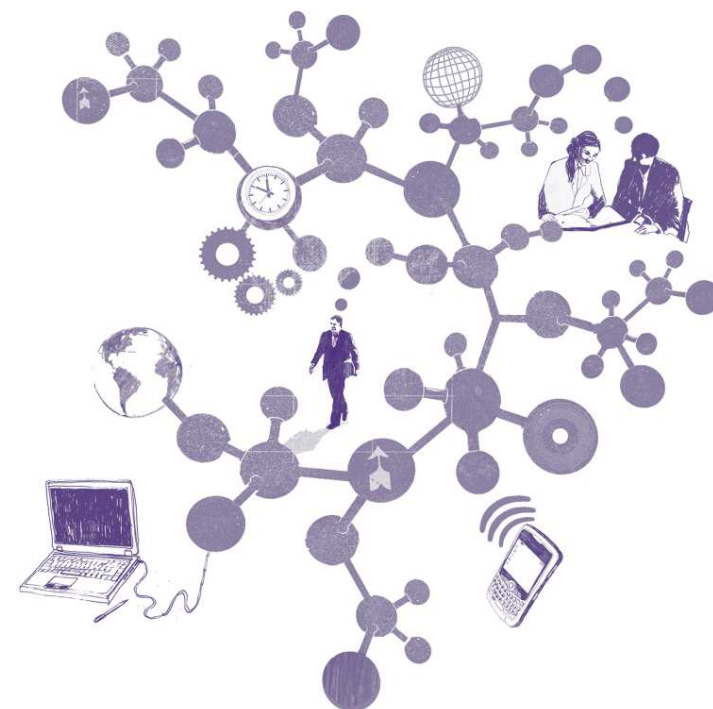
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**Year ended 31 March 2016**

27 September 2016

**Elizabeth L Jackson**  
Engagement Lead  
T 0207 728 3329  
E [elizabeth.l.jackson@uk.gt.com](mailto:elizabeth.l.jackson@uk.gt.com)

**Ade O Oyerinde**  
Manager  
T 0207 728 3332  
E [ade.o.oyerinde@uk.gt.com](mailto:ade.o.oyerinde@uk.gt.com)



Epsom and Ewell Borough Council  
Town Hall  
The Parade  
Epsom  
Surrey. KT18 5BY

27 September 2016

Dear Members

**Audit Findings for Epsom and Ewell Borough Council for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Epsom and Ewell Borough Council, the Strategy and Resources Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

**Elizabeth Jackson**

Engagement lead

Grant Thornton UK LLP  
Grant Thornton House  
Melton Street  
Euston Square  
London  
NW1 2EP  
T +44 (0)1293 554 130  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

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# Section 1: Executive summary

**01. Executive summary**

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03. Value for Money

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05. Fees, non audit services and independence

06. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Epsom and Ewell Borough Council (the Council) and the preparation of the [group and] Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 (the Act).

Under the National Audit Office (NAO) Code of Audit Practice (the Code), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 5 April 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- sample testing of debtors, creditors and other revenues
- housing benefits sample testing
- receipt of one external bank confirmation
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements on the agreed date and the accompanying working papers as the audit progressed.

## Key audit and financial reporting issues

### Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £43,891k; and the post audited financial statements show £44,298k. The gross expenditure and gross income figure were both understated by £408k as the original transactions which were correctly accounted for through the Capital Adjustment Account should have also been reflected in the Comprehensive Income and Expenditure Statement. The net impact on the Cost of Services is nil

We have recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- 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 NDR 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.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's AGS, we are satisfied it is consistent with CIPFA disclosure requirements and the audited financial statements.

## Controls

### Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### Findings

We draw your attention in particular to a control issue identified in relation to:

- the Academy system is unable to provide a listing of all NDR prepayments as at 31 March 2016. The system can calculate the total value of NDR prepayments but not individual breakdown.

Further details are provided within section two of this report.

### **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

### **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

### **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to Strategy and Resources Committee by the February 2017 due date.

### **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Accountant (acting Deputy S151 Officer).

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Chief Accountant (acting Deputy S151 Officer) and the finance team.

### **Acknowledgement**

We would like to take this opportunity to record our appreciation for the assistance provided by the Finance Team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2016**

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## Section 2: Audit findings

01. Executive summary

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05. Communication of audit matters



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our Audit Plan, we determined overall materiality to be £911k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and identified the reduction in gross revenue expenditure which led us to revise our overall materiality to £878k (being 2% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £44k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our Audit Plan, we did not identify any items where we decided that separate materiality levels were appropriate.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Epsom and Ewell Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;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"> <li>• review of entity controls</li> <li>• testing of journal entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• sample testing of operating expenditure during the year;</li> <li>• testing of the year end payables and manual accruals;</li> <li>• testing for unrecorded liabilities.</li> </ul>	Our audit work to date has not identified any significant issues in relation to the risk identified.  Our testing of creditors is still in progress.
<b>Employee remuneration</b>	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• reviewed reconciliations of the payroll to the ledger;</li> <li>• analytical review using trend analysis;</li> <li>• testing of payroll transactions to payslips and HR contract of employment.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

# Audit findings against other risks continued

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Valuation of property, plant and equipment (PPE) including investment properties</b></p>	<p>You revalue your assets regularly 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>The Code requires that you ensure that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• review of management's processes and assumptions for the calculation of the estimate</li> <li>• review of the competence, expertise and objectivity of any management experts used</li> <li>• review of the instructions issued to valuation experts and the scope of their work</li> <li>• discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• testing of revaluations made during the year to ensure they are input correctly into your asset register</li> <li>• evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>



# Audit findings against other risks continued

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Valuation of pension fund net liability</b></p>	<p>Your pension fund asset and liability as reflected in your 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"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• 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.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>The Council accounts for activity in the year that it takes place, not simply when cash payments are made or received. Revenue policies set out in Note 3 include:</p> <ul style="list-style-type: none"> <li>• revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchase, and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.</li> <li>• revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue recognition policies are appropriate and in line with the CIPFA Code of Practice on Local Authority Accounting.</li> <li>• The Council has significant revenue streams from a number of different sources, principally fees and charges, income from council tax revenues and grant income. We recommended the policy include these income in the list of sources.</li> <li>• Accounting policies in respect of revenue recognition are adequately disclosed.</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– pension fund valuations and settlements</li> <li>– revaluations</li> <li>– Impairments</li> <li>– Provisions</li> <li>– useful life of capital equipment.</li> </ul> </li> </ul>	<p>The critical areas of judgement applied in compiling the Council's financial statements have been explained in the statement of accounts.</p> <p>The Council is advised by external experts in relation to property and pension fund valuations. We have reviewed the work of experts and are satisfied that the experts used by the Council are independent, appropriately skilled and have carried out their work in accordance with professional practices. Where estimates and judgements have been applied by officers we are satisfied they are free from bias.</p> <p>We identified that the table of assumptions did not include any narrative about the NDR appeals provision. An explanation of the management judgement in reaching the assumptions that underpin the financial statements has now been included in the accounts.</p>	 <b>Green</b>

**Assessment**



● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with their assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention. We identified a small number of minor narrative amendments to accounting policies 3 and 4.	 <b>Green</b>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from your bankers and requested from management permission to send confirmation requests to the various institutions with your short term investments. The permissions were granted and the requests were sent.. We have received all confirmations except the one from Goldman Sachs. We have carried out alternative audit procedures to obtain confirmation of this balance.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>We are required to report on a number of matters by exception in a number of areas. We have not identified any issues we would be required to report by exception in the following areas:                             <ul style="list-style-type: none"> <li>if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>the information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul> </li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>Note that work is not required as the Council does not exceed the threshold.</li> </ul>




# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses, PPE and Pension Fund valuation as set out on pages 11-13 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 <b>Amber</b>	<ul style="list-style-type: none"> <li>The Academy system is unable to provide a listing of all NDR prepayments as at 31 March 2016. The system can calculate the total value of NDR prepayments but not individual breakdown.</li> </ul>	<ul style="list-style-type: none"> <li>The Council should explore the NDR system reports to enable a detailed listing report to be run.</li> </ul>

**Assessment**

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

# Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

We have not identified any unadjusted misstatements during our audit testing.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
<b>1 Cash and cash equivalents (note 17) and Balance Sheet</b> Temporary investments managed in-house totalling £15m have been included as. As the investments are for greater than one year these have been amended in the Balance Sheet to be short term investments. DR short term investments CR cash and cash equivalents There is no impact on the net worth of the Balance Sheet.	0	15,000 (15,000)	0
<b>2 Comprehensive Income and Expenditure Statement</b> The gross expenditure and income figure were both understated by £408k being S106 contributions which were correctly accounted for through the Capital Adjustment Account were not reflected in the Comprehensive Income and Expenditure Statement. DR Gross Income CR Gross Expenditure There is no impact on the net Cost of Services	408 (408)	0	0
<b>Overall impact</b>	<b>£ 0</b>	<b>£ 0</b>	<b>£ 0</b>

## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	180	Other government grants (note 11)	The public-private partnership funding was incorrectly included as other government grants in note 11. This has been correctly amended in the current and prior year figures.
2 Disclosure	1,200	Financial instruments (note 15)	The fair value analysis incorrectly includes council tax and NDR debtors in aggregate totalling £1.2m. These are statutory items of debt and therefore do not meet the definition of financial instruments. The note has been amended.
3 Disclosure	n/a	Exit packages (note 25)	The prior year exit package figures were excluded from the disclosure note in the draft accounts. The note has been amended.
4 Presentation and disclosure	n/a	Various	<p>We have made a small number of suggested presentational and disclosure changes to aid users' understanding of the financial statements. The key areas amended are as follows with other amendments too minor to note specifically:</p> <ul style="list-style-type: none"> <li>• Narrative Statement</li> <li>• Annual Governance Statement</li> <li>• Note 16 – Debtors</li> <li>• Note 32 – Collection Fund</li> </ul> <p>The relevant notes have been amended.</p>

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in March 2016 and identified the following significant risk around your sustainable resource deployment in the medium term, which we communicated to you in our Audit Plan dated 5 April 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and on-going risk assessment. Where our consideration of the significant risk determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our considerations included:

- reviewing the 2015/16 outturn position and financial planning assumptions for 2016/17 and beyond
- reviewing the capacity of the finance and leadership team as a result of absences during the first half of the 2016/17 year.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

### **Recommendations for improvement**

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows:

- Ensure that monitoring of the financial position is a priority throughout the year in light of the stretched capacity of the finance and leadership team.

Management's response to these can be found in the Action Plan at Appendix A.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>You are 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 have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• reviewed your outturn position for 2015/16, including the delivery of savings targets</li> <li>• reviewed your plans to achieve the 2016/17 revenue budget</li> <li>• assessed your progress on the residual risk reported in our previous audit reports</li> <li>• met with key officers to discuss and review your arrangements to ensure medium term financial stability.</li> </ul>	<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 has 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><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has 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.</b></p>

**Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

**Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.



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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

We confirm below our final fees charged for the audit and there were no fees for the provision of non audit services.

### Fees

	Proposed fee £	Final fee £
Council audit	44,708	44,708
Grant certification	8,976	TBC
<b>Total audit fees (excluding VAT)</b>	<b>53,684</b>	<b>TBC</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

### 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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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.a.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	The Council should explore the NDR system reports to enable a detailed listing report to be run.	Medium	Officers have previously explored the potential of improved reporting for NDR with the providers Academy. Following these conversations it became clear that Academy were unable to provide us with the type of reporting we require, limiting our ability to investigate solutions further. Officers will therefore seek advice from other Local Authorities on if they have found a method for improved reporting.	On-going Director of Finance and Resources
2.	Ensure that monitoring of the financial position is a priority throughout the year in light of the stretched capacity of the finance and leadership team.	Medium	In 15/16 we introduced monthly monitoring in addition to the standard quarterly monitoring that we undertake. All monitoring is now reported at Leadership Team with issues identified and remedied as quickly as possible. This new approach will continue and has proven to be successful in tackling financial issues collectively and in a timely manner. The capacity of the Finance Team during a year of change will be monitored closely. An experienced interim Chief Accountant will join from 6 September 2016 to ensure adequate cover during the recruitment process to fill the Chief Accountant role permanently.	On-going Director of Finance and Resources

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unqualified audit report**

## **DRAFT - INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EPSOM AND EWELL BOROUGH COUNCIL**

We have audited the financial statements of Epsom and Ewell Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Head of Finance (Deputy S151 Officer) and auditor**

As explained more fully in the Statement of the Head of Finance (Deputy S151 Officer) Responsibilities, the Head of Finance (Deputy S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the SHead of Finance (Deputy S151 Officer); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

**Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

**Elizabeth Jackson**

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Melton Street, Euston Square. London. NW1 2EP

Date to be confirmed (2016)





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