



# The Annual Audit Letter for Epsom and Ewell Borough Council

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**Year ended 31 March 2017**

October 2017

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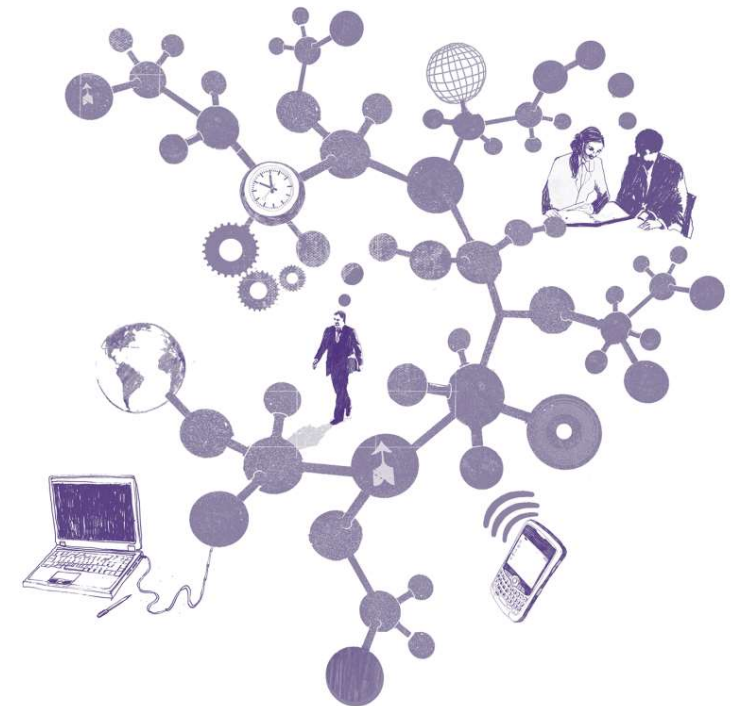
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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Epsom and Ewell Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 26 September 2017.

## **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 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 27 September 2017.

### **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 2017. We reflected this in our audit opinion on 27 September 2017.

### **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 2017. We will report the results of this work to the Strategy and Resources Committee.

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 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define 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 £802k, which is 2% of the Council's 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 did not identify any items where we decided that a separate materiality level was appropriate.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This included assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the acting Director of Finance and Resources are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

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

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is 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 – Epsom and Ewell Borough Council

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Operating expenses</b> We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>creditors and accruals understated or not recorded in the correct period.</li> </ul>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle;</li> <li>undertook walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;</li> <li>reviewed year end account reconciliations;</li> <li>sample tested operating expenditure during the year;</li> <li>tested the year end payables;</li> <li>tested for unrecorded liabilities and manual accruals.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration</b> We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>employee remuneration accruals understated</li> </ul>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle;</li> <li>undertook walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;</li> <li>reviewed year end reconciliations of the payroll to the ledger;</li> <li>completed <b>sample testing of payroll transactions during the year;</b></li> <li>completed directional analytical review using trend analysis.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

# Audit of the accounts continued – Epsom and Ewell Borough Council

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property, plant and equipment</b> The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate;</li> <li>• reviewed the competence, expertise and objectivity of management experts;</li> <li>• reviewed the instructions issued to valuation experts and the scope of their work;</li> <li>• discussed with the valuer, the basis on which the valuation was carried out and challenged key assumptions;</li> <li>• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding;</li> <li>• tested revaluations made during the year to ensure they were inputted correctly into the Council's asset register;</li> <li>• 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.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p><b>Valuation of pension fund net liability</b> Your pension fund asset and liability as reflected in your balance sheet represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• documented the controls put in place by management to ensure that the pension fund liability is not materially misstated;</li> <li>• 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 is carried out;</li> <li>• undertook 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 the actuary.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p> <p>We used an auditor's expert to provide assurance on your actuary's work. Our expert concluded that the assumptions used by the actuary to be reasonable.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 27 September 2017, in advance of the 30 September 2017 national deadline. The draft financial statements for the year ended 31 March 2017 recorded 'Other Comprehensive Income and Expenditure' of £2,156k and our work has not resulted in a change to the reported position.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers.

## **Key messages arising from the audit of the accounts**

We reported the key messages from our audit of the accounts of the Council's accounts to the Strategy and Resources Committee on 26 September 2017 which included the following:

- the draft statements presented for audit on 3 June 2017 was free of material errors. However, improvements will need to be made to the quality review process to eliminate the number of minor disclosure errors within the draft accounts;
- working papers was provided in a timely manner and supported the disclosures in the accounts. However, working papers for debtors, creditors and prepayments in the NNDR system needed to be improved to provide a detailed breakdown of the balance at an individual level; and
- officers were supportive to our audit requests and provided additional information throughout the audit.

## **Annual Governance Statement and Narrative Report**

We are 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.

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# 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 2016 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. As a result of our risk assessment, we reported to the Strategy and Resources Committee that we had not identified any significant risks requiring further work.

In arriving at our conclusion, our main considerations included the following:

- The Council delivered a strong financial performance during 2016/17 achieving a small underspend of £163k against net revenue budget of £7,727k. The Council had arrangements in place that monitored financial performance and the reported key variances to Council quarterly. These variances were properly disclosed to stakeholders in Section 2 of the Narrative Report.
- The Council had arrangements in place that continuously updates the medium term financial strategy (MTFS). The MTFS is updated annually and the most recent Plan covered the 4 year period from 2017/18 and 2020/21. The MTFS set out key budget assumptions which included council tax charge annual increase of £5 for a band D property and other charges by 3% annually. Along with other districts, the Council is facing reductions in central government funding, with core funding from Revenue Support Grant and retained business rates decreasing from £1,810k in 2016/17 to £783k by 2019/20. Similar reductions in funding are expected from the New Homes Bonus allocations with the Council losing up to £890k in 2018/19 when compared to prior year.

- At the time of writing the Audit Findings Report (August 2017), savings and development of new income streams had been identified of £1,726k over the 4 year period 2017/18 to 2020/21 as part of the budget process. The Council had identified the need for a further savings of around £790k between 2018 and 2020 to achieve a balanced budget by 2020/21. Work is continuing to identify the required medium to longer term savings and it included the consideration of alternative income generation plans. During 2016/17, the Council purchased two additional investment properties with a total value of £19,213k taking the year end fair value to £41,437k per Note 16 to the accounts.
- Over the same period, the net rental income from investment properties increased from £1,138k to £1,402k. The purchase of investment properties was largely funded by borrowing and we noted that full Council approved borrowing limit could be increased up to £80 million to fund further property acquisitions. To ensure robust governance arrangements, there needs to be regular reporting of the investment decision returns and risks.
- The Council's risk management arrangements were adequate. The Audit, Crime & Disorder and Scrutiny Committee (ACDSC) received regular reports on leadership risks and approved the new Risk Management Strategy 2017 – 2021 at its November 2016 meeting. We note Leadership risk 2 'gaps in staffing resources affecting resilience levels and the ability to deliver services' was rated high.



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## Value for Money conclusion - continued

- Since the last review by ACDSC, the Council had undergone some leadership changes which included the departure of the Chief Executive, the appointment of the Director of Finance and Resources as the new Chief Executive from March 2017, the Head of Financial Services as the acting Director of Finance and Resources. Additionally, key positions within finance were staffed by interim appointments such as Head of Finance and Project Accountant. With local authorities being required to bring forward in 2018, the accounts preparation and audit of the financial statement to 31 May and 31 July respectively, the Council will need to increase resilience within the finance team if it is to deliver an accurate set of accounts for audit in line with the tighter timescales

### **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 2017.

# Appendix A: Reports issued and fees

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

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	44,708	44,708	44,708
Housing Benefit Grant Certification	9,773	*TBC	8,976
<b>Total fees (excluding VAT)</b>	<b>54,581</b>	<b>TBC</b>	<b>53,684</b>

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

\* Audit of Housing benefit subsidy is in progress and will be completed and certified by the 30 November 2017 deadline

## Non- audit services

No non-audit or audited related services had been undertaken for the Council in the year.

## Reports issued

Report	Date issued
Audit Plan	4 April 2017
Audit Findings Report	26 September 2017
Auditor's opinion on accounts	27 September 2017
Auditor's value for money conclusion	27 September 2017
Annual Audit Letter	October 2017
Housing Benefit Grant Certification and report	November 2017 (planned)



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